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THE CIRCULATION OF MONEY IN THE PEOPLE'S REPUBLIC OF CHINA

by Tseng Ling and Han Iei

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FOREWORD

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THE CIRCULATION OF MONEY IN THE PEOPLE'S REPUBLIC OF CHINA

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<u>Table of Contents</u>	<u>Page</u>
Introduction	1
Preface	7
Chapter 1. The Circulation of Money Just Before and During the First Period of the Formation of the People's Republic of China	
I. The gradual withdrawal from circulation of notes issued in the different liberated regions	10
II. The rapid withdrawal of Kuomintang money from circulation	17
III. Prohibiting the circulation of foreign currency and concentrating currency control and operations with foreign currency in the People's Bank	21
IV. Prohibiting the circulation of gold and silver, private trade in gold and silver, and computation of prices in gold and silver	23
Chapter 2. The Circulation of Money During the Period of Reconstructing the National Economy	
I. Peculiarities in the development of the national economy during the first stage of construction of the new government	29
II. The fight to eliminate inflation and stabilize the circulation of money	32

	<u>Page</u>
III. The role of the organized circulation of money in the struggle by the socialist economy against the capitalist economy	43
IV. The development of the circulation of money in the countryside and its role in expanding commodity turnover between city and country	55
V. The influence of the socialist transformation of capitalist banking establishments on the circulation of money	60
VI. The further strengthening of an independent, unified and stable monetary system	62
VII. Peculiarities of the circulation of money during the period of reconstructing the national economy	63
Chapter 3. The Circulation of Money During the Initial Period of the First Five-Year Plan for the Development of the National Economy	
I. The development of the national economy during the initial period of the First Five-Year Plan	74
II. The influence of the planned purchase and sale of basic agricultural products on the circulation of money in the countryside	77
III. The influence of the upsurge in agricultural cooperatives on the circulation of money in the countryside	84
IV. The increase in possibilities for regulating seasonality in the circulation of money through credit channels	98
V. The influence of the socialist transformation of capitalist industry, trade, and cottage industry on the circulation of money in the city	101
VI. The monetary reform in new China	106

	<u>Page</u>
Chapter 4. The Struggle for the Planned Circulation of Money	
I. Conditions for planning the circulation of money	117
II. The creation of a base for the planned circulation of money	118

Introduction

The great thinkers and founders of scientific socialism, Karl Marx and Friedrich Engels, wrote as early as 1850 that when the European reactionaries finally reach the Great Wall of China who knows but what they will find the inscription: "Republic of China. Liberty, equality, fraternity." (K. Marx and F. Engels, Works, Vol. VIII, p 211) This scientific prophecy has come completely true. The great Chinese people, as the result of a long and heroic struggle under the leadership of their Communist Party, have won a victory of world-wide significance. The domination by landowners, compradors and bureaucrats, Americans, English and other imperialists has fallen into oblivion. The Chinese people have become the sole and sovereign master of their country.

The character of the Chinese revolution, and the characteristics and peculiarities of its development, arising from the specific Chinese situation, caused the peculiarities of the origin and development of the people's money of China (jen min pi). The people's money was first issued by the Worker-Peasant Bank at the beginning of the thirties. The notes carried portraits of the leaders of the world proletariat, K. Marx and V. I. Lenin, and the slogan, "Workers of the world, unite!" The new money helped in expanding and strengthening the worker-peasant regions and in conducting the Chinese people's revolution against the Kuomintang and foreign imperialists; it played an active role in strengthening the economy of the liberated regions.

During the Chinese people's long struggle against the Japanese invaders and the Chiang Kai-shek clique, the liberated regions were territorially separate and consequently the circulation of money in the different liberated regions was also territorially separate. Such "independence" in the circulation of money in each liberated region was unavoidable under the existing conditions; it made it possible to adapt the circulation of money to the nature of the protracted war and partisan tactics. But, despite the "independence" of the money of the different regions, the people's money already had a single social-economic nature. The circulation of people's money expanded as territory was liberated. At present the people's yuan has become the sole currency in the territory of the People's Republic of China.

Our economic literature has seldom discussed the circulation of money in China. The Russian translation of The Circulation of Money in the People's Republic of China by Tseng Ling and Han Lei fills this gap to a certain degree. The book familiarizes the Soviet reader with the monetary system in People's China and with the measures implemented by the Communist Party and the People's Government to introduce the people's money into circulation, to force the Kuomintang money out of circulation, and to unify the circulation of money in the country.

The work examines the process of eliminating inflation and of strengthening and stabilizing the circulation of money. The authors

also analyze the role of the people's yuan in the rehabilitation of the national economy and in the fulfillment of the First Five-Year Plan (up to 1956). Considerable attention is given to the system of planning and regulating the circulation of money in the People's Republic of China. Of undoubted interest to the Soviet reader is the description of the specific peculiarities in the development of the circulation of money in the People's Republic of China which arise from peculiarities in the development of the Chinese revolution, in the Chinese economy, and in its national traditions.

The Chinese people, under the leadership of their Communist Party, during a period of time so short as to be unprecedented in history, have achieved truly grandiose successes in the field of the circulation of money as well as in other fields of economic construction. Through the efforts of the Chinese people, within the space of two or three years a uniform monetary system has been created in this huge country where semi-feudal relations in combination with domination by foreign imperialists still recently prevailed, where the circulation of money had not been unified for centuries, and where several dozens of different currencies were in circulation. Now, as comrades Tseng Ling and Han Lei show, "the sole currency in People's China is the jen min pi."

The creation of a single monetary system was made possible first by the unprecedented political unity of the people, united under a powerful centralized government on principles of democratic centralism, and second, by a single national economy. On the other hand, the single monetary system promoted, during its formation process, the rehabilitation and development of an all-national economy and the political consolidation of the government.

During the very first years of existence of the People's Republic of China, when the country's economic condition was poor as the result of the heavy burden inherited from the Kuomintang regime and the necessity of continuing the war, and the socialist sector still comprised a small proportion of the national economy, commodity prices and the circulation of money were stabilized. Afterwards, as the national economy developed, as socialist elements in the economy increased, as the deficit in the state budget was completely eliminated, and as issuing currency to cover this deficit was discontinued, the circulation of money steadily improved.

At present the people's yuan is successfully fulfilling all the functions inherent in money under conditions of a socialist economy. It serves as a general measure of inputs of social labor for the production of goods, and is used by the people's government in the establishment and regulation of prices, in planning production and commodity turnover, in strengthening economic accountability, as a control over the measure of labor and consumption, and to distribute and redistribute the national income in the interests of development of the national economy and a steady increase in the standard of living of the Chinese people.

In the sphere of circulation, the people's yuan promotes in every way the expansion of commodity turnover and the development of commodity turnover between town and country; this strengthens the economic ties between them and strengthens the union of workers and peasants, the basis of the dictatorship of the proletariat. Utilizing the objectively existing economic law of the circulation of money, the people's government provides, in a planned way, agreement between the amount of money in circulation and turnover requirements, and creates the conditions for stability of the people's yuan and for increasing its purchasing power.

In the sphere of payment relationships, the people's yuan serves as an important means of control over the economic-financial activity of socialist enterprises, promoting the attracting of free funds into People's Bank channels and organization of a system for settling accounts in the national economy of the People's Republic of China.

As a result of stabilization of the circulation of money and expansion of the sphere of commodity-money relationships, the function of the people's yuan as a medium for saving and accumulation has developed rapidly. The People's Bank has attracted large sums saved by the workers into its channels to be used to supply credit for the national economy. The importance of the yuan in foreign settlements is also increasing.

The people's yuan played a great role in the development of economic relationships between the various regions of the country. Old China, as the result of domination by foreign imperialists with their policy of "divide and conquer," was economically and politically disunited for a long time. In essence it did not even have a single national market. The Chinese people, under the leadership of the Communist Party, quickly turned China into a united and powerful government. Immediately after the formation of the People's Republic of China economic ties began to develop between all regions of the country. The people's yuan, as the sole currency of China, became an instrument for realizing these ties, for creating a single national economy.

The authors of the book describe clearly the development of the functions of the people's money at various stages of the construction of the People's Republic of China.

In the liberated regions, and also during the first period of formation of the People's Republic of China, these functions were manifested partially rather than completely due to the rather considerable use of barter at that time. As the national economy was restored and the economy and commodity-money relationships developed, the functions of the people's money expanded.

The transition period in the People's Republic of China, as in other socialist countries, is characterized by the presence of socialist and capitalist sectors in the economy. The government, on the

basis of the known, objectively existing economic laws, even during the first stage of construction of People's China, deliberately used the people's money in all of its functions in the interests of consolidating and developing the socialist sector of the economy. At the same time, considering the laws of the transition period under actual conditions in China, the government, in the interests of developing the economy of the country as a whole, successfully utilized the people's money to expand the production and sale of goods by enterprises belonging to the national bourgeoisie. State enterprises, in concluding contracts for the production and delivery of goods with enterprises belonging to the national bourgeoisie, gave them credit in the form of advances of money (in most cases through People's Bank credits). These contracts fixed the price of the delivered goods in consideration of actual production inputs and state established profit norms. This primary form of state capitalism, promoting the growth of the national economy, in the final analysis developed in the interests of socialism.

Furthermore, the people's money also served the capitalist sector of the economy in this period, making possible the utilization of the money in two ways.

The national bourgeoisie, while on the side of the Chinese working class in its struggle against imperialism and the reactionary Kuomintang, nevertheless clung to its narrow class interests. Many bourgeois elements opposed the restrictions implemented against them, using the people's yuan for this. "The struggle between the restrictions and the opposition to them," said Comrade Liu Shao-ch'i, "has been the basic form of class struggle within our country in recent years; it shows the basic class contradiction in the country, i.e., the contradiction between the worker class and the bourgeoisie." (Liu Shao-ch'i, Political Report by the Central Committee of the Communist Party of China to the VIII All-China Party Congress, Materials of the VIII All-China Congress of the Communist Party of China, Gospolitizdat, 1956, p 19)

Not only did the Chinese bourgeoisie use the yuan to exploit the workers; to obtain very great profits they tried to inflate market prices, avoided paying taxes, and tried to avoid government control in various ways. All this had a bad effect on the circulation of money and on the condition of state finances. This struggle by the bourgeoisie, especially strong in the spring of 1950 and in 1952, is examined in detail by the authors.

The Chinese people, under the leadership of the Communist Party, beat off the attacks of the bourgeoisie, ensuring the further successful development of the economy of the People's Republic of China, especially of its socialist sector, the strengthening of the circulation of money, and the stabilization of prices.

China's experience in the field of the circulation of money, as in other fields of economic construction, is a clear demonstration

of the advantages of socialism. This experience also teaches that a knowledge and a conscientious use of the objective laws of the circulation of money on the basis of Marxist-Leninist theory, with the necessary consideration taken of the specific peculiarities of each socialist country, will guarantee the successful construction of a planned socialist monetary system.

The book concludes with a study of the processes of the circulation of money in China in about the middle of 1956. Three years have passed since then, and during this short period great changes of international importance have occurred in People's China.

In 1956 the socialist reorganization was complete on the whole in the People's Republic of China in industry and in agriculture. As a result, the capitalist form of ownership of the means of production was replaced by socialist forms of ownership. In 1957 the First Five-Year Plan was successfully completed and the primary basis for socialist industrialization was created in the country.

Gross output in industry and agriculture in 1957 was 68 percent greater than in 1952. In 1957 industry (including cottage industry) accounted for 56.5 percent of the total gross industrial and agricultural output as compared with 41.5 percent in 1952; output of producer goods was 52.2 percent and 39.7 percent, respectively.

On the basis of the growth in production, commodity turnover increased considerably. The total volume of consumer goods (in fixed prices) entering the trade network increased by 55 percent during the Five-Year Plan. A single socialist market was created in the country, supplemented by the market, organized under state control, for the sale of agricultural products and various goods of local production by peasants, under an established procedure. Retail prices on goods remained stable.

In connection with the successful fulfillment of the First Five-Year Plan, state budget revenues (excluding balances carried over) were 75 percent greater in 1957 than in 1952; moreover, revenues of state, cooperative and state-private enterprises comprised 95 percent of total budget revenues in 1957 as compared with 10.1 percent in 1952. During the First Five-Year Plan period as a whole, state budget revenues exceeded expenditures by 153 million yuan.

Gigantic successes were achieved in 1958, the first year of the Second Five-Year Plan. Gross industrial and agricultural output increased by 65 percent during the year. Wholesale and retail commodity turnover increased, and the workers' standard of living rose. All this ensured a further consolidation of the country's finances.

The rapid economic development and the stable condition of state finances predetermined the stable condition of the circulation of money. Money was issued during the First Five-Year Plan as a whole and in 1958 in a planned manner in agreement with the growth in commodity turnover and in the population's revenues and expenditures.

Only in 1956, when the development of economic construction was especially extensive and the country suffered from a natural disaster, did the state budget obtain 819 million yuan from the People's Bank as a temporary credit from deposits. (Ko Chih-ta, Some Questions of Financial Work in the People's Republic of China, "Finansy SSSR," No. 3, 1958, p 68) But this did not have a negative effect on the circulation of money. During the first half of 1956 only the usual seasonal withdrawal of money from circulation was noted and total money was at the level of the second half of 1955. During the second half of 1956, in connection with the season for procurement of agricultural products and raw materials, a planned issuance was conducted and total money in circulation at the end of the year was 1,690,000,000 yuan greater than at the end of 1955.

However, as the result of measures implemented to develop commodity turnover, increase budget revenues and save on the expenditure of state funds in accordance with the Party's appeal: "exerting every effort, striving ahead, to build socialism according to the principle of more, faster, better and cheaper," the temporary difficulties were quickly overcome. In 1957 the state budget returned the temporarily borrowed funds to the People's Bank, and in 1958 budget revenues once again exceed budget expenditures, by the amount of 900 million yuan. In 1957 the People's Bank withdrew 1,100,000,000 yuan from circulation.

Commodities, directed by the state into turnover in a planned way and at stable prices are the chief foundation for a stable circulation of money in the People's Republic of China.

China's credit system, primarily the People's Bank, plays an important role in the planned regulation of the circulation of money. The credit system accumulates free funds not only of state, cooperative and joint enterprises and organizations, but also of the population. Total deposits by the population drawn into the credit system, amounted to 3.9 billion yuan at the end of 1957, an increase of 350 percent over 1952. The work of the credit system to attract temporarily free money is an important factor in the further strengthening of the circulation of money in the People's Republic of China.

Now the great Chinese people, under the leadership of the Communist Party, are successfully struggling to fulfill the Second Five-Year Plan for the development of the national economy, for the victory of socialism. The people's yuan plays, as before, an important part in this struggle, and is truly serving the cause of socialism as it did during the period described in detail in the book by comrades Tseng Ling and Han Lei.

M. Sveshnikov

Preface

At present the jen min pi (the people's money) is the sole currency of People's China. Therefore, a study of the circulation of money in the People's Republic of China must begin with a study of the origin of the jen min pi, the people's yuan.

From the very moment of their issuance the jen min pi were called upon to fulfill an important and responsible task -- to create a stable, independent monetary system ensuring the conditions necessary for developing production and commodity turnover and for supporting the front in every possible way.

When the jen min pi were first issued, their sphere of circulation was the regions which had experienced eight years of anti-Japanese and two years of people's liberation war. The wounds inflicted by war on these regions were very serious: production was low; the peasants, supporting the people's liberation war in every possible way, could give little assistance to the development of commodity turnover since the commodity economy in the countryside was undeveloped, the market was stagnant, and credit relations in the countryside had fallen into decay. At the same time, as the result of many years of war, the expansion of barter, and the depreciation of the old money, the custom of computing prices in ch'u mi ze had become rooted in the countryside. The peasants took money reluctantly and very little money circulated in the countryside. In some regions silver yuan were still in circulation. Lack of faith in paper currency was common. A decisive change had to be made. This was a great and very complicated task.

At the time when the jen min pi were issued local currency was in circulation in each liberated region. The liberated regions occupied a vast territory; their economy (mainly due to the great costs of conducting the war) was unstable, and price levels differed in different regions and also within one region. For this reason the value of money in the different liberated regions was not the same, making convertibility difficult. In addition, the rate of exchange of a given region's money in respect to the money in circulation in the Kuomintang regions was different over different borders. Under these complicated conditions it was necessary to gradually turn the jen min pi into a single currency for the liberated regions without causing shocks in the market and sharp fluctuations in commodity prices.

At the moment when the people's yuan went into circulation the Kuomintang notes, "fa pi," had already depreciated catastrophically, and the "gold yuan" (also Kuomintang money), although they had been issued not long before, had depreciated even more. The "silver yuan," issued by the Chiang Kai-shek clique in regions of Kwangchow and Szechwan provinces, the last of its strongholds, were quickly overtaken by the same fate. As the result of the sharp depreciation of paper

currency in the territory of the regions seized by the Kuomintang, there was a continuous and sharp increase in prices so that this money stopped fulfilling one of its chief functions, i.e., serving as a measure of value.

In the recently liberated regions the People's Government had to take urgent measures to eliminate the burdensome inheritance from the Chiang Kai-shek clique. It was necessary to replace the fictitious notes with new people's money, to stabilize prices, and to bring order into the market situation. All this had to create normal conditions for the rapid restoration of production and trade, stop the squandering of the national wealth, and gradually normalize economic life in the liberated regions.

After the people's yuan went into circulation in the newly liberated cities, gold, silver, and American and Hongkong dollars continued to circulate. Widespread speculation in these caused great harm to the normal development of the country's economy. Moreover, it was impossible to allow foreign currency to circulate within the territory of an independent government with an independent economy.

During the first period after the people's yuan went into circulation the war was still going on. Active assistance to the front was needed to achieve victory. In the newly liberated regions it was necessary to put the people's money into circulation, eliminate the chaos in the sphere of the circulation of money, conduct a stubborn struggle against speculation, regulate commodity resources, and stabilize the market.

Prices continued to rise throughout the country for almost a whole year after the people's yuan were issued. This was caused, on the one hand, by the pernicious consequences of the Chiang Kai-shek regime, and, on the other hand, by financing the war to achieve complete victory over the enemy. Moreover, the process of putting the people's yuan into circulation occurred while various economic structures under the guidance of the state sector of the economy existed in our country's national economy. The presence of capitalist and small-scale commodity economies introduced elements of spontaneity. In addition, during the period of reconstructing the national economy the level of planning the activity of a great number of state enterprises was still low. All this caused a number of peculiarities in the process of putting the people's yuan into circulation and created serious difficulties in planning the circulation of money. It was necessary, proceeding on the basis of the specific situation, to continually improve the work of regulating the circulation of money, to gradually overcome all difficulties, and to place the circulation of money at the service of production and commodity turnover.

The facts show that the jen min pi have successfully fulfilled their historical mission. An independent, unified monetary system was created in People's China, and it has gradually acquired more and more of a planned nature.

The planning of the circulation of money can only be done on the basis of a socialist economy, under the conditions of the operation of the basic economic law of socialism and the law of planned, proportional development of the national economy.

At present the economy of People's China is characterized by comprehensive socialist construction and socialist transformation, and by a steady development of the national economy.

In agreement with this, the planning of the circulation of money is being improved rapidly, as an important component of planning the whole national economy.

This book examines the experience and successes of the Chinese people in the field of creating an independent, unified monetary system and of planning the circulation of money.

Chapter 1

The Circulation of Money Just Before and During the First Period of the Formation of the People's Republic of China

The Gradual Withdrawal From Circulation of Notes Issued in the Different Liberated Regions

On 1 December 1948 the People's Bank of China in Shih-chia-chuang, the political and economic center of the liberated region of North China, started to issue jen min pi. The short period between the beginning of the issuance of the people's money and the proclamation of the People's Republic of China was a period of brilliant victories in the national revolution, and a period of struggle by the Chinese people for the creation of an independent and uniform monetary system.

On the eve of the proclamation of the People's Republic of China the national liberation war was, on the whole, victoriously ended and most of the regions of the country had been liberated.

After victory in the revolution the country was faced with the following tasks in the field of economics: immediate confiscation of the means of production formerly belonging to bureaucratic capital, for which it was necessary to compute exactly the plants, mines, enterprises and banks belonging to them; the rapid restoration of production; the discontinuance of all speculation; strengthening of the market in every way; and organization of commodity turnover between cities and the countryside.

There was an especially pernicious inheritance from the Chiang Kai-shek clique in the field of the circulation of money. It was characterized by a catastrophic depreciation of the "fa pi" and the so-called "gold yuan," and by a swift growth in prices which rose several times during the course of a day. Prices were computed in gold and silver which circulated in the market and turned into an important object of speculative machinations.

The numerous small private banks and exchange offices which appeared in this period were concerned mainly with currency speculation. The rate of interest on loans on the market reached 100-200 percent annually, private industrial and trading enterprises illegally accumulated goods for speculation, the level of production fell from day to day, and the market was in a stagnant condition.

The harm done to the country by the Kuomintang regime, which had plundered the national property for more than 20 years of its criminal rule, was great. During a short period of time alone, 1947-1948, prices rose more than 26,000 times. The direct harm to the Chinese people caused by monetary inflation alone was over 15

billion silver yuan. It is not possible to determine the total losses borne by the national economy as a result of inflation.

There were immediate tasks ahead of the people's governments created in the different regions: to regulate the circulation of money, to restore production, and to normalize the life of the population. The necessary premise for fulfilling these important tasks was the creation of a single, unified monetary system and the stabilization of the circulation of money.

At the beginning of the anti-Japanese war, the Eighth Army, penetrating to the rear of the enemy, organized the masses for the struggle and developed partisan warfare, creating numerous bases for opposition in the rear of the enemy. In essence there were no economic relations between the different bases of opposition; they were compelled to depend on their own efforts for everything and to conduct the war independently. Under these conditions the people's government in the different bases of opposition had to issue local currency as the only legal medium of payment within the given region, and had to stop the enemy currency from penetrating its territory.

The currencies issued in the different bases of opposition were not mutually convertible. At the time of victory in the anti-Japanese war the following types of money were in circulation in these territories:

<u>Name of the Money</u>	<u>Regions Where the Money Circulated</u>
Notes of the Shensi-Kansu-Ningsia Frontier Region Bank	The Shensi-Kansu-Ningsia Liberated Region*
Notes of the Northwest Peasant Bank	The Shansi-Suiyuan Liberated Region
Notes of the Southern Hopeh Bank	The Shansi-Hopeh-Shantung-Honan Liberated Region
Notes of the Shansi-Chahar-Hopeh Frontier Region Bank	The Shansi-Chahar-Hopeh Liberated Region
Notes of the Pei-hai Bank	The Shantung Liberated Region
Notes of the Central China Bank	The Central China Liberated Region
Notes of the Southern Bank	The Kwangtung (Tung-chiang) Liberated Region

* Later notes issued by this regions' Trading Company also circulated here.

After the capitulation of Japanese imperialism, the mercenary Chiang Kai-shek clique, "accepting" the capitulation, seized many of our country's strategic cities and communications (with the exception of the region of Kalgan city) and unleashed the anti-people civil war. The different liberated regions (formerly bases of opposition) were blockaded. These regions were compelled to retain their independent currencies to prevent the influx of "fa pi" and "gold yuan," to save the people's wealth from being plundered, to fill the requirements of the front, and to achieve victory over the Chiang Kai-shek clique. During this period of civil war, in addition to the above-listed local currencies issued during the anti-Japanese war, new independent currencies were issued in the regions recently liberated by the People's Liberation Army: in the Northeast Liberated Region, Northeast Bank notes; in the Port Arthur and Dal'nyy Region, Kwangtung Bank notes; in the Hopeh-Jehol-Liaoning Liberated Region, Ch'ang-ch'eng Bank notes; and in the Central Plain Liberated Region, Chung-chou Peasant Bank notes.

The People's Liberation Army, led by the Chinese Communist Party and warmly supported by the Chinese people, changed from defense to attack and soon decisively ran the Chiang Kai-shek clique's military and political forces from the Chinese mainland. At this time the different liberated regions gradually became united, as a result of which economic ties began to be restored and to develop and a tendency toward unification of the monetary system was noted.

In Northeast China issuance of notes by the Ch'ang-ch'eng and Kwangtung banks was stopped and, instead of the parallel circulation of various notes, Northeast Bank notes became the basic unit of money; these gradually pushed the notes of the Ch'ang-ch'eng and Kwangtung banks out of circulation.

In North China, where notes of the Shansi-Chahar-Hopeh Frontier Region Bank and of the Southern Hopeh Bank were in circulation, issuance of the first was discontinued and Southern Hopeh Bank notes became the basic unit of money. In East China regions, issuance of notes by the Central China Bank was discontinued and only Pei-hai Bank notes remained in circulation. In Northwest China, where three types of notes were in circulation, issuance of notes by the Shensi-Kansu-Ningsia Frontier Bank and the Trading Company was discontinued, leaving the Northwest Peasant Bank notes in circulation as the sole unit of money. In the Central Plain Liberated Region, as the result of unification of different circulation media, Chung-chou Peasant Bank notes became the sole currency.

In the winter of 1948, when conditions were created for the victorious conclusion of the People's Liberation War, it became necessary to further unify the country's monetary system. With this purpose, on 1 December 1948, the People's Bank of China was established on the basis of the North China Bank, the Pei-hai Bank, and the Northwest Peasant Bank. This bank, as already noted, began to issue jen

min pi, and the local notes issued in the different liberated regions were gradually withdrawn from circulation. At first, notes of the Southern Hopeh Bank and of the Shansi-Chahar-Hopeh Frontier Region Bank were withdrawn in North China; notes of the Pei-hai Bank and the Central China Bank in East China; and notes of the Northwest Peasant Bank, the Shensi-Kansu-Ningsia Frontier Region Bank, and the Trading Company in Northwest China.

During this unification process, on 15 March 1949 the Chung-chou Peasant Bank was converted into a regional division of the People's Bank of China. The people's yuan, jen min pi, began to circulate in Central China and in the central liberated regions. By 15 June 1950 the notes issued by the Southern Bank, which had been circulating in the Kwangtung-Kiangsi-Hunan Frontier Region and the Fukien-Kwangtung-Hunan Frontier Region, had been completely withdrawn from circulation.

On 1 April 1951 the State Administrative Council of the Central People's Government published a decree on the exchange of the local notes circulating in the Northeast and in Inner Mongolia; on 1 November 1951 it published a decree on the issuance in Sinkiang of currency with inscriptions in Uigur. By this time the exchange of notes (silver yuan issued by the Sinkiang Province Bank) was almost completed.

The basic work of unifying the local currencies in the different liberated regions was completed by 1 October 1949. After the proclamation of the People's Republic of China, only problems related mainly to the need for considering peculiarities of a local character remained unsolved. For example, the exchange of notes circulating in the Northeast dragged out until the beginning of January 1951, mainly because during the preceding period, when the war was still going on in China proper, and the Northeast was already completely liberated, the latter was permitted to retain an independent monetary system temporarily. This was intended to ensure a rapid conversion to peaceful construction and to restored production in the aim of supporting the liberation war throughout the country.

The retention of notes, silver yuan, in Sinkiang was based on a consideration of political and economic conditions in the national minority regions. For this same reason, silver dollars and Tibetan bank notes still circulate in Tibet along with the people's yuan.

As far as Taiwan, occupied by the Chiang Kai-shek clique and American imperialism, is concerned, the Chinese on this island are continuing to experience the full burden of inflation.

The money issued in the liberated regions was people's money. Therefore, it was necessary to implement measures so that the following principles would be observed during the process of unifying the circulation of money.

a. Establishment of a correct exchange rate. Since the liberated regions developed under different economic conditions and under different military circumstances, the units of money in the different

liberated regions represented different values at the time when the circulation of money was unified. This is why it was first necessary, during the unification process, to settle the question of establishing the correct rates at which some local currencies would be exchanged for others, so that the holders of the notes would not undergo losses. Price levels in the respective regions were used as a basis for determining the exchange rates. Basing the rates on market prices enabled a holder of Money A and a holder of Money B to retain, during the exchange, the purchasing power of the money they had on hand, and guaranteed that one of the units of money would not fall in value when being exchanged for another.

The city of Tientsin was the first large city liberated in China proper. At that time it belonged to the territory of the North China Liberated Region. However, since the part of the People's Liberation Army which liberated it was operating in various regions, notes of the Southern Hopeh Bank, of the Shansi-Chahar-Hopeh Frontier Region Bank, of the Northeast Bank, and of the Ch'ang-ch'eng Bank were circulating in Tientsin along with the jen min pi. But nevertheless, the basic unit of money was the people's yuan. On 18 April 1949 the Tientsin Division of the People's Bank of China published the following fixed exchange rates established by the People's Government of North China.

For 1 yuan in jen min pi

Yuan of the Southern Hopeh Bank	100
Yuan of the Shansi-Chahar-Hopeh Frontier Region Bank	1,000
Yuan of the Northwest Peasant Bank	2,000
Yuan of the Pei-hai Bank	100
Yuan of the Trading Company of the Shensi-Kansu-Ningsia Frontier Region	2,000
Yuan of the Northeast Bank	200
Yuan of the Ch'ang-ch'eng Bank	200
Yuan of the Jehol Province Bank	1,000
Yuan of the Shansi-Chahar-Hopeh Frontier Region Bank, issued for circulation in the Hopeh-Jehol-Liaoning Frontier Region	5,000
Yuan of the Central China Bank	100
Yuan of the Chung-chou Peasant Bank	3

These official exchange rates were the same, on the whole, as the rates which formed spontaneously on the market; the reason for establishing them at this level was the desire to protect the holders of the money in the liberated regions from exchange losses.

b. Stabilization of the exchange rate, mixed circulation of money. When the unification of two adjoining regions into administrative units began, during this organizational period the task was to establish the correct exchange rate, stabilize it, and allow the temporary parallel circulation of the two different units of currency of the different regions in a fixed ratio. This was a necessary transition stage in the process of consolidating the formerly independent regions with their independent units of currency. The parallel circulation of the two units of currency was to promote the restoration and development of economic ties between the two regions, isolated in the past, and to prevent price fluctuations on the market.

Since the circulation of money was directly connected with the different aspects of the people's economic life, forbidding the circulation of any given unit of currency and exchanging it for new money to which the population was not accustomed would have been an extremely serious matter. Excessive haste could have had a negative influence on the circulation of commodities and money for a certain period of time. That is why it was decided to permit the temporary parallel circulation of two different units of money which formerly circulated in two adjoining regions. In doing this it was assumed that after stabilizing the market and creating the necessary commodity reserves, when the preparation for exchanging the money was completed and the population was already relatively accustomed to both types of money, one could be withdrawn from circulation and replaced by the other.

The permission for a very short period of time of mixed circulation of money at a fixed legal ratio during the period of exchanging the notes of the different liberated regions for people's yuan, was of a somewhat different nature. This was done for convenience in exchange and for creating favorable conditions for the circulation of money, and also because of certain temporary circumstances. For example, during the struggle for the liberation of Peiping (until October 1949 Peking was called Peiping) and Tientsin, for convenience in supplying the Northeast Army, decrees of the Military Control Committees of Peiping and Tientsin permitted the temporary circulation of notes of the Northeast Bank and of the Ch'ang-ch'eng Bank in these cities. When these special circumstances were no longer operative, the People's Government of North China, on 15 April 1949, announced the termination of the circulation of these notes in Peiping and Tientsin and their circulation was limited to the Northeast. An exchange point was created on the border of the two regions in Shang-hai-kuan, where these currencies were exchanged at the official rate and through which money transfers from one region to another were handled; this was to promote the development of trade relations between them.

c. Obligatory exchange (purchase), at the fixed exchange rate, of all the local notes being withdrawn from circulation. For exchanging the money issued in the different liberated regions, fixed exchange rates were established, at which the People's Government exchanged (purchased) all notes circulating in the liberated regions. The periods for the exchange were limited for purely organizational reasons and so that the people would help the government finish this work in the shortest possible time. However, this did not mean that the exchange stopped after the established period. Even after the expiration of the exchange period holders of notes in the liberated regions could come to the bank and exchange the money at the established rate. In addition, the same exchange rates were used for all layers of the population since all the population of the liberated regions had given material support to the revolutionary efforts during the anti-Japanese war and during the third civil revolutionary war.

d. Ensuring stability of market prices. During the process of unifying the circulation of money it was necessary to ensure stability of market prices. Along with the observance of this principle in trade, until the active coordination of the activity of the trade organizations, measures were implemented for the gradual exchange of money, in particular through creating special exchange points. But the basic method was withdrawal of money from circulation through state enterprises and organizations and cooperatives during their daily activity. Money which was taken in and was subject to exchange and withdrawal was not given out again, but was given to the bank; in this way it was gradually removed from circulation.

The People's Government considered it their duty to exchange at a just rate not only money issued during the anti-Japanese war and the civil revolutionary war, but also money, promissory notes and bonds issued earlier by the revolutionary bases during the period of the agrarian revolution.

During the agrarian revolution (after the defeat of the revolutionary forces in 1927) and up to the beginning of the anti-Japanese war, the banks of the different people's revolutionary bases issued money for the different revolutionary centers of Red-controlled regions of Kiangsi and Fukien provinces. After the Workers-Peasants Red Army left these regions, the Chiang Kai-shek clique categorically forbid the circulation of the money issued by the banks of the people's revolutionary bases, and did not permit the population to keep this money. In some places, for example in Yu-shan County, Kiangsi Province, execution was the penalty for keeping this money. However, despite bans and persecutions, the population kept it by any method possible. According to existing estimates, in part of the regions of Kiangsi Province alone, the population had bank notes issued during the period of the agrarian revolution amounting to over 1 million yuan (in units of money of that period).

The fact that a large part of the population carefully kept this money for a long time eloquently demonstrates what limitless faith the Chinese Communist Party and the Workers-Peasants Red Army enjoyed among the masses of people.

For these reasons, a decree of the Finance-Economics Committee of the State Administrative Council of the Central People's Government ordered the local divisions of the People's Bank to exchange the money issued by the different revolutionary bases during the agrarian revolution in Kiangsi and Fukien provinces. In doing this the exchange rate was not fixed directly in relation to jen min pi, but through the silver yuan, at a rate of 12 yuan of the money being exchanged per silver yuan, with payment in jen min pi. This ratio agreed with the actual value of the money being exchanged.

III

The Rapid Withdrawal of Kuomintang Money From Circulation

During the last years of its rule, the Chiang Kai-shek clique issued huge amounts of paper money to finance the anti-people war. After the failure of the "fa pi," as we already saw, paper notes called "gold yuan" were issued and also very quickly depreciated completely. In their last strongholds in southwestern and southern China, the Chiang Kai-shek clique attempted to issue the so-called "silver yuan" and thus continue to plunder the people.

During the whole period of the third civil revolution, in the regions occupied by the Chiang Kai-shek clique the monetary system was in a completely disrupted condition and prices were rising swiftly. Chaos was noted in the circulation of money in all the regions liberated by the People's Liberation Army, and to bring order the People's Government had to immediately and decisively withdraw all the worthless Kuomintang money from circulation. Retaining this money in circulation for a more or less extended period would have meant shifting part of the burden of inflation caused by the rule of the Chiang Kai-shek clique to the shoulders of the population in the liberated regions. At the same time, the mercenary Chiang Kai-shek clique could, even in the future, resort to even greater issuance of paper money and thus appropriate the people's wealth in the liberated regions.

During this period part of the population, temporarily located in some regions under the power of the Kuomintang regime, underwent the cruelist deprivations, experiencing the whole burden of unchecked inflation.

A most important task ahead of the People's Government in the territory of a newly liberated region was the immediate banning of circulation of Kuomintang money and the rapid introduction of a single people's currency. This was to promote the creation of a new-democratic order, the restoration of production, and stabilization of the market.

During that period mainly the following methods were used:

a. Forbidding the circulation of the old money and exchanging it for people's yuan at a fixed rate. The People's Government announced that the only legal money of a given region was the jen min pi and all money receipts and payments of state organizations and enterprises and private persons, entries in account books, and monetary documents must be handled only in people's yuan. At the same time it announced that all Kuomintang money was revoked. In the interests of the people the revoked money was exchanged at a rate computed in consideration of the ratio between prices for basic goods in the territory still occupied by the enemy and in the liberated regions. In doing this the exchange rate for Kuomintang money was usually fixed at a somewhat lower rate than the actual ratio of the indicated prices, and the rate was gradually decreased. When the Kuomintang regime crashed, faith in the Chiang Kai-shek money was completely gone and the population of the liberated regions refused to use it. Under these conditions, its immediate withdrawal from circulation and the issuance of people's yuan were not only necessary, but also fully feasible measures.

b. Limitation of the exchange periods. The exchange period, as a rule, was made very short: the maximum period was not more than 10-15 days. At the same time the exchange of Kuomintang money for goods produced on territory occupied by the enemy was encouraged. With this in mind there was a temporary relaxation in the restriction against the importation of goods from enemy regions right up to the complete repeal of import taxes. In squeezing the Kuomintang money from circulation it was intended that this be done mainly through the efforts of the people themselves. That is why the exchange rate was gradually lowered, why the exchange period was limited and why restrictions against import of goods from regions occupied by the enemy were relaxed. The exchange of money conducted by the People's Government was only an additional measure. It goes without saying that different methods were used under different conditions. Thus, in the initial period of the civil war unleashed by the Chiang Kai-shek clique, when our forces yielded to the enemy, we still frequently needed Kuomintang money in large amounts to purchase necessary goods in enemy regions and cities. Under these conditions the exchange of Kuomintang money had the purpose of mobilizing it in the hands of the People's Government. In doing this the exchange rate, the exchange period, and other organizational measures were determined in agreement with this purpose. At the end of the civil revolution complete squeezing of the Kuomintang money from circulation was counted on.

In Peking and Tientsin amounts up to 500 "gold yuans" were exchanged for workers, employees, students and poor people at a preferential rate. Thus, on 22 January 1949 the usual exchange rate was established at 8 "gold yuan" per yuan in jen min pi, and the preferential rate was 3 "gold yuan" per yuan in jen min pi. On 26 January

the usual rate was reduced to 10 "gold yuan," while the preferential rate remained the same as before. A shorter exchange period was established with the preferential rate. In Tientsin this period was set at 10 days, and each person could exchange money only once upon presentation of a certificate given by the appropriate establishment. Such a method of exchange was in the interests of the basic mass of the population and served as a clear indication of the democratic policy of the People's Government and its People's Bank.

However, many difficulties arose when using the preferential rate. During the first period the organizational side of the work was far from perfect due to lack of experience and personnel. It was quite complicated to determine the social affiliation of a given person in a short time. With the great difference between the ordinary and the preferential exchange rates, there was a danger of many abuses which could hinder the rapid squeezing of Kuomintang money out of circulation. Therefore, when other regions were liberated these methods had to be discontinued.

After the People's Liberation Army liberated the southern regions of China and the remnants of the Chiang Kai-shek troops fled to Taiwan, the question of the Kuomintang money in the newly liberated regions was again different.

The Chiang Kai-shek clique, sheltering in Taiwan, was not able to continue the unrestrained issuance of paper money, and there was no place for the Kuomintang money in the hands of the population to be squeezed to. During this period the People's Government was faced with the task of bringing order into the circulation of money in the liberated regions by exchanging Kuomintang money at an established rate. This required the expenditure of certain funds. This could have created the impression that the People's Government was assuming responsibility for the Chiang Kai-shek paper money. However, the People's Government undertook this step to lessen the people's difficulties although it had the formal right to simply annul the Kuomintang money. Moreover, the exchange of the money promoted the rapid creation of a single monetary system with a single unit of money, the people's yuan.

Thus, in these two different periods the People's Government had two different approaches toward the Kuomintang money.

During the period of liberation of Tientsin, in January 1949, the basic course was to squeeze the "gold yuan" out of circulation. The Tientsin Military-Control Committee declared that all notes issued by the Chiang Kai-shek government was illegal and their use was forbidden in trading circles. However, to lessen the difficulties for the city population, temporary circulation of this money was permitted with observance of the following rules: persons having over 100,000 "gold yuan" were permitted to register these sums at the custom house or the trading-industrial administration and to take them into enemy territory to purchase goods there. Persons having less than 100,000

"gold yuan" could go to the central exchange points of the Tientsin Division of the People's Bank of China with an application for permission to export this money into enemy regions for purchasing goods there. If the holder of the "gold yuan" was not able to conduct such an operation himself he could be given permission to exchange the money for people's yuan at the exchange points of the People's Bank of China at the established rate. The basic aim of such a policy was the squeezing of "gold yuan" out of the liberated regions into regions occupied by the Chiang Kai-shek clique.

At the end of May 1949, after the liberation of Shanghai, the situation changed radically. The Kuomintang regime was actually completely crushed, although in the few regions of Southwestern and Southern China temporarily occupied by the Chiang Kai-shek clique "silver yuan" were still being issued. But liberation of these regions was only a question of a few days. There was already no place to squeeze the "gold yuan" out to. By this time the issuance of "gold yuan" increased from 200 million to 67,900,000,000,000 yuan in less than a year. The real purchasing power of "gold yuan" in respect to gold fell sharply and comprised only one ten millionth of its purchasing power at the time of issuance; i.e., actually the "gold yuan" were worth less than the paper on which they were printed.

To solve the people's difficulties, and to eliminate the hindrance to the most rapid organization of a unified monetary system, a policy was adopted for the urgent, universal, unrestricted exchange of "gold yuan" at a single rate.

The depreciated "gold yuan" were exchanged for people's yuan by establishments of the People's Bank of China and by numerous exchange points at a rate of 100,000 "gold yuan" per people's yuan. The exchange was completed in 7 days. In all, about 36,000,000,000,000 "gold yuan" were exchanged, 53 percent of the total amount issued.

Thanks to this the People's Government could publish a decree on conducting all payments and settlements in people's yuan, and a single monetary system was created.

On 2 July 1949, not long before the declaration of the People's Republic of China, the Chiang Kai-shek clique began to issue "silver yuan" in Canton. The People's Government stated then that this attempt was the death agony of the Kuomintang regime, and that the "silver yuan" was paper money of no value. The government called on the people of the regions temporarily occupied by the Kuomintang troops to declare a popular boycott of the "silver yuan."

It was officially announced that after the liberation of the occupied regions the "silver yuan" would be revoked and would not be exchanged for people's yuan. This appeal of the People's Government was warmly supported by the population in the regions waiting for liberation. The "silver yuan" quickly failed and after the Kuomintang troops were run from the mainland the yuan were soon removed from circulation.

III

Prohibiting the Circulation of Foreign Currency and Concentrating Currency Control and Operations With Foreign Currency in the People's Bank

One of the pernicious consequences of the long rule by the Kuomintang clique was the flooding of our country with foreign currency. In the large and medium-sized cities mainly American dollars circulated, and in Southern China a large number of Hong Kong dollars circulated. Due to the steady depreciation of the Kuomintang money, the American and Hong Kong dollars had actually replaced the "gold yuan" in circulation in many Chinese cities. These dollars were bought and sold freely on the market, and prices were computed in dollars. At the same time such foreign banks as the "Hong Kong-Shanghai Banking Corporation" and the "Chartered Bank of India, Australia and China," had the exclusive right of issuing bank notes for our country's territory, which was one of the indications of the semi-colonial nature of old China's economy. The Chinese people underwent losses when the capitalist countries' currencies depreciated, and the imperialists were able, by issuing paper notes, to plunder material values worth great amounts and belonging to the Chinese people.

But the most pernicious fact was that, having obtained the exclusive right of issue, the imperialists had concentrated control over the circulation of money in China in their hands. The awakened Chinese people, filled with national pride, could not allow this in any case. Such a situation was not compatible with the independent monetary system of new China. Therefore, it was necessary to forbid the circulation of foreign currency in each liberated region, and to deprive foreign banks of the right to issue currency and of their monopoly of handling foreign currency operations. This was a matter directly touching on the sovereign right of our government. The government's actions in which respect were decisive and inflexible.

It should be kept in mind that inasmuch as the foreign currency in the hands of the population represented debts of the imperialists who expropriated the wealth of the Chinese people, the task was to use these debts in every possible way to achieve the return of material values so necessary to the People's Government. The wealth lost by the Chinese people during the epoch of the semi-colonial regime had to be returned to the new, independent China for the needs of state construction and for increasing the people's material and cultural standard of living.

With these aims the local people's governments of the liberated regions conducted the following measures:

a. Prohibition of the circulation and the buying and selling of foreign currency. Persons who had foreign currency could exchange it only at the People's Bank. Private persons were forbidden to own

foreign currency, but it was to be retained in the People's Bank and used in accordance with the rules of currency control, i.e., according to appropriate decisions.

b. The establishment of a rational rate of exchange for foreign currency. Immediately after the liberation of cities in which foreign currency was in circulation, the People's Bank announced the rate for its exchange; the official rate usually was the same as the market rate of that time. In some cases the period for the exchange was limited and in others there was no limitation.

Since the Chinese people had undergone cruel plundering for a long period through unrestrained inflation unleashed during the rule of the Kuomintang regime, the population preferred to keep their savings in the form of foreign currency in many cases. Therefore, holders of the currency were given the right to exchange it even after the expiration of the established exchange period.

c. After the completion of the work of prohibiting the circulation of foreign currency and exchanging it, conducting all foreign currency operations in accordance with the established rules of currency control.

The rules of currency control published by the people's governments in the different regions provided that all holders of foreign currency (Chinese citizens as well as foreign residents) must, within a determined period, exchange this currency in the People's Bank of China or in its agent establishments, or register it as a deposit against an appropriate receipt. Persons coming into China on business or as tourists had to exchange their foreign currency and bills of exchange for people's yuan at border establishments of the People's Bank of China or make a deposit in the currency.

Thus, all foreign currency in the country up to the publication of the rules for currency control and imported after their publication had to be exchanged or deposited.

Private transactions in foreign currency and computation of prices in foreign currency were forbidden.

In order to attract deposits in foreign currency it was necessary to establish an appropriate policy. The period of the deposit in foreign currency could be extended. Upon demand, the deposit was paid in jen min pi, usually at the existing rate. Payment could also be made in foreign currency with special decisions. It was permitted to export foreign currency formerly deposited in the bank when leaving the country.

All this made it possible for the government to concentrate the scattered foreign currency in its hands and thus form a certain reserve of foreign currency for importing needed goods.

The restoration and development of foreign trade relations with different countries on the principle of sovereignty and mutual advantage became one of the principles of our country's foreign policy. In order to expand foreign trade and favorably develop other non-trade

items of the payments balance, the People's Bank began to implement strict control over operations in foreign currency. All international settlements, whether or not they involved cash, began to be conducted only through the People's Bank, its agent banks, or banks controlled by it.

The rules of currency control had the purpose of increasing receipts in foreign currency and saving non-currency resources in every possible way. Reserves of foreign currency were called upon to play an active role in the socialist industrialization of the country and to promote the implementation of an independent economic and currency policy by our government.

IV

Forbidding the Circulation of Gold and Silver, Private Trade in Gold and Silver, and Computation of Prices in Gold and Silver

During the first period of formation of the People's Republic of China, gold and silver continued to circulate within the huge territory of the newly liberated regions and prices continued to be computed in gold and silver. This was one of the basic factors in the lack of organization in the circulation of money. Therefore, the Central People's Government had to bring order into this matter also.

Before the formation of the People's Republic of China the people had very little faith in the Kuomintang paper notes. The mercenary Chiang Kai-shek clique sold the sovereign rights of the government in exchange for "assistance" from American imperialism in the amount of several millions of liang of gold. At one time they attempted to strengthen faith in the sharply depreciating paper money by organizing free buying and selling of gold by the Central Bank at a price declared by the bank. Although this method promoted some reduction in the circulation of paper money, under the conditions of the very cruel inflation unleashed by the rotten Kuomintang regime it actually opened the way for further enrichment of the four families of China. These representatives of bureaucratic capital speculated extensively in gold; gold became a basic factor in the increase in prices. Under the conditions of the rapid depreciation of the paper money, the population was compelled to compute prices in gold and silver and also to use them as media of circulation in order to realize normal trade in goods. Gold and silver yuan actually became the basic types of money. During the first period after the liberation the computation of prices in gold and silver, circulation of these metals, and speculation in them occurred everywhere.

There were two categories of people buying and selling gold. The first included part of the workers, employees, students and others of the ordinary population who were trying to prevent losses from depreciation of the money, and to maintain the purchasing power of their

savings for satisfying their most vital needs. There were many people in this category but the amount of gold bought and sold by each individual was very small.

The second category included professional speculators. There were not many, but they resold a great amount of gold with a rather considerable effect on the economy. Some of them concealed their speculative machinations behind official positions in banks, bank offices, and industrial and trade enterprises. In the pursuit after personal gain they shamelessly disturbed the country's circulation of money. There were even malicious counterrevolutionary elements among them who intentionally undermined the circulation of money.

The chief holders of silver and silver yuan in the newly liberated regions were landlords who also had a certain amount of gold. Frightened by the war and the political situation they saved gold and silver, calculating that sooner or later they could acquire speculative profit from these savings.

In the large and medium-sized cities of the newly liberated regions there were many jewelry shops which supplied valuable gold and silver articles to the representatives of the former military oligarchy, the comprador bourgeoisie, the landlords and the capitalists who were living in extravagant luxury. These jewelry shops also speculated in gold and silver on a large scale, obtaining great profits.

Mining of gold and silver in the country was, at that time, in a state of complete collapse except for the older liberated regions where it had been restored and was developing.

What measures did the People's Government have to take in this serious situation?

At that time some persons were in favor of developing a gold and silver market so that the People's Bank would buy and sell these valuable metals under free market conditions to stabilize the market. Others considered that the government should buy up the gold in the hands of the population at a high price. If a free market in gold and silver had been allowed to exist this would have led to the further development of speculation in valuable metals although in a legitimate manner. Speculation would have become even more violent. Many industrialists and traders would have stopped their normal production and commercial activities and switched to speculation in gold and silver, which would have become the actual and basic media of circulation on the market.

The jen min pi monetary system would have been undermined and it would have been extremely difficult to protect the circulation of money in our country from the influence of imperialist governments. This would have harmed our subsequent policy, directed toward the creation of an independent monetary system, and the Chinese people would have continued to experience all the consequences of chaos in the circulation of money.

At that time the government was still conducting the liberation war and was in a serious financial situation, and the circulation of money and prices were not yet stabilized. Therefore, if the government had started to buy up gold and silver at high prices, this would have unavoidably caused the issuance of a large amount of money causing an even greater growth in prices. Since the chief holders of gold and silver were landlords and capitalists, they alone would gain from this measure. Having obtained large profits, they would have speculated even more violently, considerably aggravating the market chaos. The whole burden of the consequences of the buying up of gold and silver would have fallen on the masses of working people.

It is quite clear that the government could not use either of these methods. The only possible thing was to conduct the following measures:

a. Strict prohibition of speculation in gold and silver. The declaration that private trade in gold and silver, the computation of prices in gold and silver, and the circulation of these metals were illegal. Use of very strict measures against professional speculators in gold and silver and other persons undermining the circulation of money, and the elimination of this speculation through the joint efforts of state establishments and the people. For example, in Shanghai some tens of thousands of workers, employees and students took part in the movement against speculation in gold and silver. The campaign was conducted very actively and gave good results.

b. To protect the interests of the workers who had small amounts of gold and silver, purchase of these metals from them at a just price. During the period when the circulation of money was not yet stabilized the People's Bank received deposits in terms of material values, i.e., in units of commodities. This was to guarantee the purchasing power of the money deposited and in this way discourage the depositors from conducting transactions with gold and silver.

c. Publication of rules exactly defining the sphere of activity of the jewelry stores and shops; prohibition of trade in unprocessed gold and silver. Supplying of raw material for the production of jewelry through the People's Bank. The establishment of strict government regulation and social control over transactions in gold and silver very soon reduced and then completely stopped speculative activity by the jewelry stores and shops. At the same time, as the result of the defeat of imperialism, feudalism and bureaucratic capital, the trade in major valuables decreased considerably, and in large and medium-sized cities the jewelry stores and shops which flourished in old China closed. Under the new conditions many jewelry stores and shops changed the nature of their activity. As the income of the workers, employees and peasants gradually increased and their standard of living increased, their demand for articles made from valuable metals increased. In consideration of this circumstance, the People's Government opened state jewelry stores in the large and medium-sized

cities, where gold articles were manufactured in a planned way and according to established standards. In small cities and in the country some jewelry shops were permitted to produce and sell silver articles under state control.

d. Permitting the population to hold gold and silver under the condition that they would be bought and sold only through the People's Bank. Private trade in valuable metals was prohibited. It should be noted that during the initial period of construction of the new government, when the country was in a serious financial situation, the domestic market was unstable, and the chief owners of valuable metals were landlords and capitalists, the government did not hurry to buy up gold and silver but permitted them to be held and only forbid speculative trade in valuable metals. Therefore, the price at which the People's Bank bought gold at that time was set at a relatively low level. This was intended to promote the settling of large amounts of gold and silver temporarily in the hands of the landlords and capitalists. This did not harm the capitalists and, under the specific conditions, such a policy was advantageous for the government since it did not require expenditures for the purchase of gold and silver, which remained in the country and could not be put into speculative circulation.

The government showed concern for the workers and employees who had only small amounts of gold and silver. If they needed to sell these valuables, People's Bank establishments, upon certification from their trade union, purchased their gold and silver at preferential, higher prices.

The policy in the countryside was also to leave the silver temporarily in the hands of the landlords, so that the official purchase price there was also set at a low level. And from the peasants, who had received gold and silver during the movement for reducing rentals, the government bought up gold and silver at special, preferential prices.

Later, when state budget revenues and expenditures were balanced and the circulation of money was stabilized, the People's Bank established prices on gold and silver in conformity with the international and domestic situation. During this period it bought up large amounts of valuable metals from the population. Since the summer of 1950 the gold price set by the People's Bank of China has not been less than the price on the world capitalist market.

e. Implementation of a policy to encourage mining of valuable metals. Different purchase prices were used depending on the gold mining conditions, the percentage of pure gold content, and the degree of mechanization of the mining processes. Under certain conditions, a higher price was paid for gold ore than for loose gold in order to stimulate mining.

f. Satisfaction by the state of normal requirements for gold and silver for industrial and medical purposes. Sale by the People's Bank of gold and silver to be used as raw materials for industrial

and medical purposes was permitted in accordance with orders included in the plan. A principle of economy was followed in respect to consumer demand for gold articles and ornaments. But in doing this, the customs of the national minorities and demands from families of Chinese emigrants were considered.

g. Presentation of a special certificate giving the right to transport gold and silver across the border, and also within the country, with the purpose of combating contraband and speculation.

h. Concentration in the People's Bank of all operations relating to trade in gold and silver, buying up gold and silver from the population, and granting of permission for acquiring gold and silver as raw materials for industrial and medical purposes. Obligatory delivery or retention in the People's Bank of gold and silver in the hands of state organizations.

All the decrees controlling operations in gold and silver which were published by the people's governments of the different regions were based on the above listed principles, which were later expressed specifically in Article 39 of the General Program.

The People's Government's decisive policy, supported by the broad masses of people, ended speculation in gold and silver and promoted their withdrawal from circulation and an end to the computation of prices in gold and silver.

The gold and silver formerly scattered in the hands of the population was concentrated in the People's Bank and began to be used as an important currency reserve. The mining of gold and silver was encouraged and normal requirements for these metals were met.

It should be said, however, that despite the effectiveness of the measures implemented, further efforts directed toward increasing the mining of gold and silver, economizing in the consumption of gold and silver, and realizing strict control over transactions in valuable metals were necessary.

During the period from December 1948 to September 1949, i.e., up to the formation of the Central People's Government, prices on gold and silver and the general market situation for these metals differed in the different liberated regions. Therefore, there were some differences in the decrees published by the people's governments of the different regions and the military-control committees in large cities on the annulment of the Kuomintang paper money; the prohibition of the circulation of foreign currency, gold and silver; trade in these; and computation of prices in them.

But they were based on the above basic principles. Thus our government's policy toward gold and silver was uniform throughout the whole country.

As the result of centralizing the issue of currency, withdrawing the Kuomintang money from circulation, discontinuing the circulation of foreign currency, gold and silver and the computation of prices in

these media, and prohibiting free trade in gold and silver, an independent monetary system with a single currency, the people's yuan, was gradually created.

This was a great victory by the People's Government on the financial front in the struggle against imperialism, feudalism and bureaucratic capital, a victory creating the necessary prerequisites for planning the circulation of money on the basis of organized commodity circulation.

A short period, less than a year, was a period of fundamental transformation for our society. Using the words of Marx, 20 years were concentrated in one day.

It was necessary to solve the multitude of very important problems facing our government with great boldness and knowledge.

The facts show that the Chinese people, under the leadership of their Communist Party, are in a position to complete this historical mission brilliantly.

The work which has begun could not be completed within the short period of time which has been indicated. It will require constant attention during the whole period of socialist construction in our country.

Chapter 2

The Circulation of Money During the Period of Reconstructing the National Economy

I

Peculiarities in the Development of the National Economy During the First Stage of Construction of the New Government

On 1 October 1949, in the capital of the new China, Peking, from the platform in T'ien-an-men Square, Chairman Mao Tse-tung announced to the world, in the name of all the Chinese people, the formation of the People's Republic of China. Now the time of oppression and slavery was in the past for the Chinese people and would not return.

After the victory of the Great October Socialist Revolution in Russia and the annihilation of Hitlerism, the victory of the Chinese revolution was the greatest event in history for all progressive mankind.

In an economic and financial respect our country was, in this period, at a great historical turning point. It was characterized by the "transformation, on a state-wide scale, of a semi-colonial, semi-feudal economy into an independent national-democratic economy, and by a change from backwardness to progress, from poor to better living conditions." (A report by Ch'en Yung-ya at the second meeting of the first session of the National Committee of the People's Political Consultative Council of China, 15 June 1950, "On the country's economic situation, on the regulating of industry and trade, and on regulating taxation," in the collection "Economic successes of the People's Republic of China 1949-1953," translated from the Chinese, Izdatel'stvo inostrannoy literatury, 1954, p. 65)

A new period began in our country's history, the period of transition from capitalism to socialism.

The long internecine wars of the military cliques, the March to the North, the agrarian revolution, and the drawn out anti-Japanese war and third civil revolution during 1937-1949 seriously damaged our country's national economy. Although production was partially restored in individual older liberated regions, and in some of them, for example, in the Northeast, it had even begun to expand, throughout the country as a whole production was lower than before the anti-Japanese war. Agricultural output in 1949 was only about 75 percent of the prewar level. The situation in industry was even worse. Taking the production of the most important types of industrial products during the record prewar year as 100, in 1949 pig iron output had fallen to 10.9, steel to 15.8, coal to 44.5, and cotton yarn and fabric to 72.5. The value of the output by modern industry in 1949 comprised only 17 percent of the value of total gross output by the national economy.

Economic ties and trade relations between city and country and between the different regions were also seriously disrupted.

Despite the fact that in the liberated regions production was being actively restored, means of communication were being steadily developed, commodity turnover between cities and country was being expanded, assistance was being given to the destitute population, and a definite economic upsurge was being achieved, the condition of the national economy of the country as a whole was extremely serious.

In respect to the circulation of money during the initial period of existence of People's China, it must be noted that although the basis for an independent unified monetary system had been created, devastation in the economy and in finances caused by the long rule of the Chiang Kai-shek clique, and the liberation war extending over a huge part of the country's territory and not yet fully ended during the first period after the formation of the People's Republic of China and requiring great amounts of funds, all naturally compelled the issuance of money on a considerable scale. Under these conditions, during the first period after formation of the People's Republic of China prices continued to rise, and the market was not yet stabilized. This hindered the restoration and development of production.

It should also be kept in mind that in 1949 a great natural disaster occurred in the country -- flooding. It was especially catastrophic in northern Anhwei and Kiangsu provinces, and in Shantung, Hopeh and P'in-yuan provinces. A total of 121,560,000 mu (1 mu -- 1/15 hectare) of land and 40 million peasants suffered from the natural disaster to some degree. Seven million peasants were in especially severe need of assistance. The government allocated 1,532,000,000 chin (1 chin -- 500 grams) of grain for assistance to destitute peasants. All this could not but aggravate the financial and economic situation of the young government.

It is also necessary to point out certain favorable conditions for the development of our economy created during that period. After the declaration of the People's Republic of China, all plants, mines, railroads and banks belonging formerly to bureaucratic capital became the property of the people's-democratic government. This became the foundation for the formation of the state sector of the economy, socialist in nature. The number of nationalized enterprises was relatively small, but these were modern enterprises with a high degree of production concentration. In this way the material basis for socialist construction and the socialist transformation in our country's national economy was laid down.

According to the Agreement on Friendship, Alliance and Mutual Assistance concluded with the Soviet Union, we obtained credit from the USSR, under especially preferential conditions with a low interest rate, amounting to 300 million American dollars; this was of great assistance to us in restoring the national economy.

Even in 1946 a movement for land reform had begun in the different liberated regions. Chairman Mao Tse-tung, in his report at the third Plenum of the Central Committee of the Chinese Communist Party on 6 June 1950, "To achieve a major breakthrough in the country's financial and economic situation," stated apropos of this that "in all the older liberated regions (with a population of approximately 160 million) agrarian reforms had already been completed, public order had been restored, economic construction had begun to proceed normally, the life of most of the workers had improved, and unemployment among the workers and intelligentsia had been eliminated (in the Northeast) or almost eliminated (in North China and Shantung). The Northeast, where planned economic construction had already begun, should be especially pointed out." (Collection "Economic successes of the People's Republic of China 1949-1953," p 16)

In Northeast China the reconstruction of the economy progressed at comparatively high rates. This was because this region was more industrially developed and was liberated ahead of many other territories. In 1949, 35 percent of the total value of industrial and agricultural output in the country was produced in Northeast China, and in 1950, 43 percent. In 1950 production of state industry in the Northeast was 95 percent greater than in 1949, and agricultural production was 37 percent higher. Private industry and trade also developed in the Northeast. In Shen-yang (Mukden), for example, the number of industrial enterprises increased by 22 percent during 1949 and the number of workers and employees increased by 18 percent. The rapid reconstruction and development of industrial and agricultural production in Northeast China was a powerful support to the reconstruction of production in the country as a whole. All of these were favorable factors.

However, during that period the agrarian question was not yet settled; the riff-raff of bandit bands and spies were not yet eliminated in the extensive, recently liberated territories. The problem of reconstructing industry and trade, connected with the development of the state sector of the economy, with stabilization of the currency, and elimination of the contradictions of a capitalist economy in new China, was not yet rationally solved. Unemployment caused serious difficulties; public order was not fully normalized. The national economy, having undergone considerable disruption during the war, needed rapid reconstruction. In this situation we did not yet have, on the whole, the conditions for realizing planned economic construction.

Chairman Mao Tse-tung said: "To achieve a major breakthrough, three conditions are necessary, namely: 1) completion of the agrarian reforms, 2) regulation of the situation in industry and trade, 3) a sharp reduction in expenditures for maintaining the state apparatus. Considerable time is required for realizing these three conditions, approximately three years, and perhaps even a little more." (Collection "Economic successes of the People's Republic of China 1949-1953,"

pp 16-17) Comrade Mao Tse-tung called on all Communists and all the people to fight energetically for the establishment of these conditions. This appeal determined the general line of our work during the period of reconstructing the national economy.

II

The Fight to Eliminate Inflation and Stabilize the Circulation of Money

During the first period after the creation of the People's Republic of China the influence of a long period of inflation, inherited from old China, still continued to be felt, all the more since the budget deficit was partially met by issuing money. Therefore, prices continued to rise. Taking the level of wholesale prices in the country's biggest city, Shanghai, in September 1949 as 100, in March 1950 the price index had increased to 831, i.e., during half a year it grew more than 8 times. Such a situation had an extremely unfavorable effect on the circulation of money and the country's national economy.

The lack of price stability hindered the normal development of the functions of money; the sphere of the circulation of money narrowed. Money almost never reached the country, and direct barter was practiced rather widely there. According to data from an investigation conducted by the Shantung Division of the People's Bank of China in the spring of 1950, there were mainly three forms of trade in the county center of T'ai-an: 1. direct barter, 2. according to prices based on the value of wheat or corn (i.e., the payment in money was made in amounts equivalent to the market prices of wheat or corn at the given time), 3. in money. The last form of trade occurred mainly between state and cooperative organizations on the one hand, and relatively large private trade enterprises on the other hand. Each of the first two types of trade accounted for approximately 40 percent of the total town market commodity turnover, and trade in money accounted for about 20 percent.

In the rural markets of T'ai-an County, direct barter was even more developed and here also the value of goods was computed in terms of grain products. In setting out to make purchases in the market the peasant usually carried on his back a sack of grain weighing 3-5 chin, but even some tens or hundreds of chin. School children exchanged eggs for pencils and paper. When the circus troupe appeared at the market in the summer, the price of a ticket was first set at 500 yuan (old, pre-reform money) but the audience was very small. This was not because the peasants were not interested in the circus, but because they had no money. After, at the peasants' proposal, the price was set at 2 eggs, the audience increased sharply.

In the cities, to ensure a stable standard of living for the workers and employees under the conditions of rising prices, the government computed wages on the basis of the price of millet or rice, and

later on a "commodity unit" was taken as a measure; this included a certain selection of vitally necessary goods. For these same reasons the People's Bank introduced a system of "equivalent deposits," credits of materials guaranteeing the deposits. All these phenomena indicate the serious limitation of the functions of the people's money, the *jen min pi*.

A certain amount of money flowing at that period into the country in the form of budget appropriations or for commodity purchases very quickly returned to the city again. Money circulating in small and medium-sized cities steadily flowed toward the big cities. Thus, the basic mass of the money was concentrated in the cities, especially the large cities. The sphere of the circulation of money was quite limited.

The great amounts of money which went into circulation as wages in the cities and as budget expenditures and state purchases partially returned to the People's Bank through the state trade network and the financial system. However, the amount of state funds paid out considerably exceeded the amount which returned to the People's Bank. Moreover, money from the country flowed into circulation. As a result, the amount of money in circulation in the cities rose sharply. Under the conditions of the growth in prices the population tried to rid themselves of cash as soon as possible and the velocity of the circulation of money was very high. According to data of the Central Division of the People's Bank in An-ch'ing, in February 1950 money circulating in this region amounted to approximately 800 million yuan, and the volume of market turnover in cash reached 19 billion yuan. Consequently, during the month the money changed hands 17.5 times, i.e., an average of once in less than two days. In large cities the velocity of circulation was even greater.

The rate of interest on loans was very high in the cities. On the private market in Shanghai the rate for credit was usually over 40 percent a month, and sometimes as high as 200 percent.

Such a situation hindered the rapid reconstruction of the national economy. The share of the state and cooperative sectors was then still small. To reconstruct the national economy it was extremely important to develop private industry and trade in the right direction and to activate the activity of the small producers.

Meanwhile, the free development of trade was impossible without a stable currency. The extensive practice of barter complicated the development of the rural economy even more. The profitable exchange of grain and industrial raw materials for needed producer and consumer goods entailed great difficulties for the peasants. This had a negative effect on supplying the cities with food and industrial raw materials and also on the sale of industrial products.

The high rate of interest on loans on the market, the weak development of bank crediting, and the high speculative profits of private traders greatly hindered the return of private industry and trade

to normal and created serious difficulties for cottage production. The unstable prices promoted the development of speculative operations by private traders. The financial operations of the capitalist sector concealed, to a considerable degree, the speculative transactions of the capitalist industrial enterprises.

Many private banks and banking offices accumulated commodity stocks themselves for the purpose of speculation. Private plant owners frequently discontinued production and switched over to speculation in goods. All this led to the fact that a fictitious abundance of goods was formed on the city market, and a great volume of commodity turnover was composed mainly of resale among trader-speculators. The circulation of bank checks was widespread; the velocity of turnover of private deposits was high, and the number of promissory notes not backed by commodity transactions was very high. These phenomena reflected the speculative nature of trade.

In respect to wages, although the state enterprises and organizations computed them in commodity units, they were still paid in money. However short the period that the money was in the hands of the workers and employees, and no matter how promptly the People's Bank organized "equivalent savings deposits," the workers and employees unavoidably incurred losses due to the growth in prices. At the same time, on pay-day they hurried to convert their money immediately into real values, acquiring goods for which they had no immediate need or even no need at all. Not only did this cause their families to undergo deprivations; it also caused scattering and waste of state commodity reserves and increased tension in supplying the market with goods.

The unfavorable situation in the sphere of the circulation of money also hindered the strengthening of the budget system and the increasing of economic accountability in state enterprises and negatively affected production and commodity turnover in the state sector of the economy and the development of credit operations by the People's Bank.

Halting inflation and strengthening the circulation of money were immediate tasks in this period. There was a question as to whether the recently established people's government could accomplish these important tasks. The imperialists were firmly convinced that the people's government would not be able to resolve these tasks.

The bombardment of Shanghai by the American-Chiang Kai-shek clique in February 1960 complicated the situation further. But no difficulties could frighten us. Led by the Chinese Communist Party, the democratic dictatorship of the people revealed their great vital force. Gross industrial and agricultural output in 1950 increased by 21.8 percent over 1949, including an increase of more than 40 percent in output of modern industry, and an increase of approximately 18 percent in output of subsidiary agriculture. The rapid growth in industrial and agricultural production created a reliable material base for halting inflation and for stabilizing the circulation of money, and balancing the budget and discontinuing the issuance of money to cover the budget deficit provided a real basis for this.

The Central People's Government from the very beginning gave special attention to the question of halting inflation and actively preparing the conditions for stabilizing currency and prices. The prerequisites for this were created first of all as the result of the rapid restoration of agricultural and industrial production, transportation and communications; the regulation of state revenues and the reduction of expenditures; the organization of the activity of state trade and of the People's Bank; the shattering blow against speculation; and the establishment of strict control over domestic and foreign trade.

With the purpose of eliminating inflationary phenomena and the growth in prices, the State Administrative Council on 3 March 1950 passed the "Decree on the Centralization of Financial-Economic Work." This decree stated that as the result of 12 years of war and inflation the life of the people had become extremely difficult. It was necessary to exert every effort to halt the monetary inflation. Savings in budget expenditures and regulation of budget revenues, centralized management of state budget revenues and expenditures, and other appropriate measures are keys to this. The decree provided for the implementation of the following measures to accomplish the tasks:

1. Centralization of financial work on a country-wide scale, balancing budget revenues and expenditures. For this it was first necessary to centralize state revenues and expenditures, especially revenues. Receipts from obligatory food deliveries of grain (with the exception of additional local receipts), and tax receipts (except permitted receipts of local taxes) were subject to centralized regulation and use by the Ministry of Finances. To save on expenditures, strict determination and regulation of expenditures by military and administrative administrations, the introduction of an economy regime, and a fight against squandering and bribery were provided for. Centralized accounting of physical assets in the country's warehouses in the aims of uniform regulation, rational use, decreasing state expenditures and reducing orders placed abroad. Regulating and strengthening work in the collection of taxes. Balancing the state budget and eliminating such phenomena as the issuance of money to cover budget deficits.

2. Centralization of state trade on a country-wide scale, and also of resources of materials. Centralized management of the distribution of materials and determination of the sphere of activity of the state trade organizations in the different regions. This was to ensure the regulation of supply and demand in the country, the bringing of order into foreign trade, the planned sale of goods, and a flow of money back to the treasury. The necessity for strict observation of credit discipline by economic enterprises, the barring of payments indebtedness by trade organizations. State trade money resources throughout the country were subject to regulation by the Central Ministry of Trade. All military organizations and state establishments were forbidden to engage in trading activity.

3. Centralized regulation of the circulation of money. People's Bank establishments became the main organs for regulating the circulation of money in the country. All the cash of military and administrative establishments and public enterprises, with the exception of the amounts necessary for current payments, had to go to People's Bank establishments. It was forbidden to give credit to private persons and to place money in private banking enterprises. Violators were subject to punishment. The People's Bank was to organize additional divisions to fulfill the function of treasuries.

In order to guarantee funds necessary for expenditures by military and administrative organs and state enterprises and for capital investments against depreciation, short-term, no-interest deposits, and for certain purposes, low-interest deposits in terms of commodity units, were provided for.

Centralized control over remittances in foreign currency was entrusted to the People's Bank.

During the 12-year period of war (from the beginning of the anti-Japanese war to 1949), control in the financial and economic field was guided by a centralized policy but was carried out in a decentralized manner. Because of our country's huge territory, many regions of which were recently liberated, there were some difficulties in the centralization of financial and economic control, especially for the local financial committees. However, the decree of the State Administrative Council stated that "the proportion and consequences of these difficulties will be incomparably less than those of the difficulties which could arise if management of financial and economic work in the country continued to be decentralized, if the disorder in the field of prices and the circulation of money continued to exist. Therefore, it is necessary, persistently following the principle of the parts being subject to the whole, and the local level subject to the center, to undergo some comparatively small difficulties in order to avoid greater ones." ("Constitution and Basic Legislative Acts of the People's Republic of China," translation from the Chinese, Izdatel'stvo inostrannoy literatury, 1955, p 186)

At the same time the Central Committee of the Chinese Communist Party issued an announcement, "On the Providing of Centralization in Financial and Economic Work," which called upon party committees at all levels to support in every possible way the measures provided for by the State Administrative Council's decree, and upon all Party members to show an example by observing the laws. The appeal by the party and government was warmly supported by all the people and by all the party and administrative personnel and was persistently carried out.

The draft state budget for 1950, although compiled in December 1949, still in wartime, already provided for the allocation of funds for capital investments in economic construction amounting to 23.9 percent of total budget expenditures through savings in current

expenditures. According to approximations, budget revenues during that period covered only 81.3 percent of expenditures, leaving a deficit of 18.7 percent.

The State Administrative Council issued a directive on 6 December 1949 on the issue of the first People's Victory Loan. The loan was issued to cover the budget deficit, but its issue was made possible by the victory won throughout the country. The loan was computed in commodity units (fen); each such unit included 6 chin of rice (in the north, millet), 1.5 chin of flour, 4 ch'ih of cotton cloth, and 16 chin of coal. The prices on these goods were computed according to average wholesale prices in six of the largest cities -- Shanghai, Tientsin, Hankow, Sian, Canton and Chungking -- and were published by the main office of the People's Bank every 10 days. The interest rate on the loan was set at 5 percent a year. Payment of the face value of the bond and of the interest began a year after issue of the loan; the whole loan was to be paid off during the course of five years. Such a procedure protected the interests of the bond holders on the one hand, and on the other hand channeled free public funds judiciously and helped solve the temporary financial difficulties. Such a method of computation combined state and private interests during a period when money did not have a stable purchasing power. That is why this measure was supported by the masses of the people and subscription to the loan exceed the planned figure.

In addition to that part of the state budget deficit which was covered by the issue of the loan, there was still a deficit of approximately 12 percent which had to be covered by increasing production, saving on expenditures and seeking out additional financial resources. Otherwise the deficit would have unavoidably had to be covered again by further issuance of money, creating great difficulties in halting inflation and stabilizing prices.

The implementation of land reform in a great part of the older liberated regions, the movement for the reduction of rent which had begun in the majority of the newly liberated regions, the restoration of agricultural production, and, finally, the warm support shown the People's Government by the peasant masses all led to the fact that deliveries of grain to the state proceeded rather successfully.

The work of regulating tax collection in cities was quickly set into motion; employees of state establishments persistently struggled to improve the work and the majority successfully realized a regime of saving in regard to expenditure of materials and wage funds. State enterprises began to show a profit.

In 1950 industrial and agricultural output and the turnover of commodity and physical assets improved considerably over 1949. As a result, budget revenues and expenditures in 1950 were balanced on the whole and a base was created for strengthening the financial system and halting inflation, and for ensuring greater conformity between the circulation of money and the volume of commodity turnover.

The centralized system of supply and distribution of resources developed greatly. The Ministry of Trade began to realize centralized administration of state trade, regulating supply and demand for basic commodities on a country-wide scale in a concentrated and systematic manner, and promoting the development of foreign trade. Within an exceptionally short period of time over 4,000 wholesale and retail trade centers were established throughout the country; one of the chief tasks of the wholesale organizations was to attract surplus money from circulation and stabilize wholesale prices. The retail stores were to ensure supplying of the population with such important goods as grain, coal, cloth, fat, salt and kerosene. Along with the development of supply and sales cooperatives, purchase and shipment of these goods was conducted on a wide scale. From January to July 1950 alone, a great amount of grain was shipped and 75 percent of all cotton cloth produced in the country was bought up.

Thanks to the policy implemented by the state in the field of price formation, the state could start to stabilize market prices by using the great masses of commodities concentrated in state trade. Thus the creation of an organized market was begun.

An important task of the People's Bank in this period was to "attract deposits, establish cash offices, and to distribute monetary resources flexibly." Specifically, this consisted of the following.

1. Realization of control over cash. With the purpose of accumulating all money subject to concentration and using it in a centralized manner in the interests of fulfilling the state national economic plan, and of successfully halting inflation and stabilizing the circulation of money for promoting the restoration of production, on 7 April 1950 the State Administrative Council published the "Decree on Control over Cash of State Establishments," the main content of which was as follows:

- a. state enterprises and establishments, military units, and cooperative organizations were compelled to pay all cash (with the exception of the established cash balance) into the People's Bank, which became the country's cash center;

- b. all settlements between state enterprises and establishments and military units (excluding small retail sales) had to be handled by clearing operations through the People's Bank. Cash could only be used for: wage payments, agricultural purchases, and small payments in cities;

- c. the People's Bank of China was instructed to gradually work out an over-all plan for receipts and expenditures of cash, and also to organize the compilation of similar plans by state enterprises and establishments, military units and cooperatives so that cash turnover would conform with the plan established in advance.

The chief purpose of control over money turnover was the achievement of uniform management and centralized regulation by the People's Bank of cash at the disposal of the state but dispersed among different

enterprises, establishments, military organizations and cooperatives. This played an important role in the matter of halting inflation, and balancing receipts and payments of cash. However, the importance of these measures was not limited to these points. They created the base for the planned regulation of the circulation of money and laid the foundation for building a socialist credit system in our country.

The decree on obligatory deposit of cash in the People's Bank by state enterprises and organizations, cooperatives, and military units created a permanent and stable source of credit resources. The establishment of relations which were socialist in nature between the People's Bank and these organizations and establishments promoted the further development of the People's Bank's socialist activity.

With the purpose of concentrating cash in its cash offices, the People's Bank, jointly with the departments which handled settlements in cash on a large scale, worked out special rules for control over cash. Thus, on 1 March 1950 the People's Bank and the Central Ministry of Trade issued the "Temporary Rules for Control over the Cash of the Central Ministry of Trade," on the basis of which "trade cash offices" were created at the People's Bank establishments. The country's trade enterprises daily deposited their cash receipts in these cash offices and could not spend them without permission from the Central Ministry of Trade. Trade enterprises' receipts and payments were conducted in agreement with plans established for them by the Ministry of Trade.

Under the conditions when the planning of commodity turnover was still only beginning, and when trade enterprises had not yet become completely economically accountable and were just beginning to transfer from subordination to local organs to subordination to a single center, such a procedure was necessary and turned out to be quite effective. It promoted centralization of the trade network and the concentrated use of commodity stocks, and was of great use in the matter of control over cash and regulation of the circulation of money.

2. Development in every possible way of work to attract deposits by the population. Under the conditions of inflation which prevailed during the first period, the people, fearing further depreciation of the money, tried to spend their money immediately for physical assets. Such a situation naturally increased the tension in the commodity market. Therefore, along with the active regulation of commodity resources in state trade, it was necessary to fight against the entrenched point of view that commodities were more important than money. This was the purpose of the work to attract deposits by the population.

The People's Government was sure that state revenues and expenditures would be balanced, that inflation would be halted, and that prices would be stabilized. But it could not immediately convince the population of this. In consideration of the mood of the masses, during the period of struggle for stabilization of the currency and for the

restoration and development of the basic functions of money, the people's government sometimes used such methods as the deposits in commodity units and guaranteed deposits put into practice by the People's Bank. For these deposits, if prices rose, payments were made at the higher rate in terms of commodity units. If prices fell the whole amount of the deposit was paid, i.e., it was not reduced. In this way the interests of the people were fully insured; this was to conclusively disperse their fear of possible losses due to rising or falling prices. In addition, the bank interest rate on deposits, 2 percent a month, attracted deposits from private industrialists and traders extensively.

The development, in every possible way, of money remittances within the country and the reduction of the commission rate for remittances caused a growth in payments turnover based on movements of physical assets between port cities, and at the same time favored the concentration of funds in the People's Bank.

3. The creation of treasury cash offices. For the purpose of achieving the fastest possible centralization of state revenues and expenditures and regulation of the circulation of money, the People's Bank, within a short period, created a network of county bank establishments to fulfill the functions of treasury cash offices. During two and one half months alone, from the middle of March to the end of May 1950, county bank establishments were opened in 1,657 counties and were given primarily the functions of state treasury offices and trade cash offices. This was to promote centralization of work relating to fiscal execution of the state budget and to assist in the distribution of state trade funds throughout the country.

To create more favorable conditions in the matter of free transfer of funds to the center on the accounts of the Ministry of Finances, Ministry of Trade, and also of government organizations and enterprises, the bank developed, in every possible way, transfer operations, forming, at the same time, stocks of money for issuing at its branches.

With strict observation of the principle of centralized issue in a single state bank, the creation of stocks of money for issuing in cities ensured control over the issuance of money into circulation. These stocks could only be used with permission from the People's Bank of China, with strict observation of the rules of issue.

When local establishments of the People's Bank conducted money transfers, the sender bank simultaneously deposited the amount of the transfer in cash in the local stock of money for issuing, and the payer bank, on the basis of a letter of advice concerning the transfer, was issued the amount of the transfer from the local stock of money for issuing and this was paid to the recipient of the funds. Conducting of transfers without observing this rule was a violation of issue discipline. Such a system ensured flexible distribution of funds under the conditions of centralized issue and played a positive role.

All these measures provided the People's Bank with extensive possibilities in the organization of cash money turnover and the further concentration of resources.

In April 1950 the situation in the country changed fundamentally. The increase in prices and lack of stability in currency which had prevailed for several years were replaced by the opposite tendencies. Taking prices in March 1950 as 100, in October 1950 the price index was about 93.

As the result of stabilizing the circulation of money, money began gradually to fulfill its functions which had been disturbed by the inflation. The sphere of the circulation of money, which had narrowed during the inflation period, began to widen, and the velocity of circulation fell to a normal level.

The stabilization of the circulation of money had a positive effect on the whole economic life of the country. Specifically, this consisted of the following:

a. a smashing blow was delivered against the speculating bourgeois elements, the abnormal development of market speculation was stopped, the ground was taken from under the feet of the capitalist industrial and trade enterprises which had been accumulating commodity stocks for speculation, and also illegal financial transactions and usury were ended. Other branches of capitalist activity, depending on comprador and bureaucratic capital, also underwent great losses. With the elimination of the conditions engendering these abnormal phenomena, favorable conditions were created for activity by enterprises in the interests of the people;

b. the necessary prerequisites for the extensive development of commodity turnover between town and country were formed;

c. the stabilization of the circulation of money and the normalization of the market promoted a stabilization, and later an increase, in the living standard of the great mass of workers and employees. Supplying of industry with raw materials and of the market with industrial goods improved considerably, which promoted strengthening of the system of economic accountability in enterprises;

d. a favorable situation was formed for the strengthening of the financial system, the development of credit operations by the People's Bank, and an increased flow of deposits by the population.

It is sufficient to say that such deposits in the People's Bank increased 19 times in 1950. It was especially noteworthy that while currency was being stabilized and the circulation of money strengthened in our country, inflation was developing and currency was deprecating in the largest capitalist countries. At the end of 1949, as is known, the sterling bloc countries, headed by England, devaluated their currencies by approximately 30 percent. In the US, prices increased by more than 10 percent during the first half of 1950 alone.

Why was our country, economically backward, having just ended a long war, and having established the new people's democratic government just a half year before, in a position to halt inflation and

stabilize the currency while such highly developed, industrial capitalist countries as England and the US, which had finished the war more than five years before, continued to have inflation?

The main cause is in the difference of principles behind the social and economic systems and the nature of society. In the imperialist countries production relations were fettering the development of their productive forces. The basic economic law of modern capitalism is the striving of monopolistic capital to ensure maximum profits for itself. Inflation under capitalism is a very important instrument for the exploiters to squeeze the juice out of the workers; it represents a type of tax which is usually used to cover the deficit in the capitalist budget and is a heavy burden on the shoulders of the workers, continually reducing their standard of living.

In a socialist state the basic economic law determining the development of society is the satisfaction of the steadily growing requirements of the people. The socialist economy in which this law operates creates a solid base for stabilizing currency.

During the new democratic revolution and the first period of the establishment of the People's Republic of China, when it was necessary to fill the requirements of the revolutionary war, the country's budget could not be balanced; to cover the budget deficit, it was necessary to issue money. However, this issuance was fundamentally different from the monetary inflation in old China. The purpose of the inflation carried out by the mercenary Chiang Kai-shek clique was plunder of the people's wealth in the interests of conducting the counterrevolutionary war for personal enrichment. Speculation, inspired by the not unknown four families, flourished on this soil. During the almost 20 years of rule by the Kuomintang regime there was serious monetary inflation and the Chinese people incurred great losses.

In distinction to this, money was issued during the revolution and the initial period of construction of the new China by the people's government with the purpose of mobilizing the people's funds for the needs of the revolution and the development of production. It was only a temporary measure; when conditions changed the monetary policy also changed fundamentally.

As the result of a number of important measures implemented by the Communist Party and the People's Government and warmly supported by the people and management personnel, and also thanks to the advantages of the people's democratic structure, the country's financial and economic situation changed radically during a few months. The inflation which had raged for more than 10 years was eliminated, prices were stabilized, and there was even some temporary reduction in prices. At the same time financial and economic work was centralized and reorganized throughout the country in agreement with socialist principles. All this created the objective prerequisites for the solution of the tasks in the organization of planned circulation of commodities and money.

III

The Role of the Organized Circulation of Money in the Struggle by the Socialist Economy Against the Capitalist Economy

The stabilization of the currency opened perspectives for the favorable development of production and commodity turnover. Moreover, it should be emphasized that the fundamental change in the situation, which had existed in the country for more than 10 years and had been characterized by inflation and chaos in the commodity market, was caused mainly by the victory of the socialist principles of economic construction.

The prompt and effective measures of the party and government, conforming with the specific situation of the period, and the development of activity among the masses of people, were the result of the consistent instillation of the principles of socialist management.

Centralization in the field of financial and economic work, in the distribution of resources through state trade channels, in market management, and in the regulation of cash turnover was a completely new phenomenon. Planned, centralized organization of the circulation of commodities and money, led by the socialist sector of the economy on the basis of the development of industrial and agricultural production, was begun on a country-wide scale. This was the first stage in the implementation of the principles of planned socialist management.

Inflation could not have been halted and the circulation of money could not have been stabilized on the basis of the old capitalist market. It was necessary to create a new market under the conditions of an economy led by the state sector. During the process of development of the socialist economy the market situation changed fundamentally; these changes were in the direction of the creation and development of a socialist, organized, and planned commodity production and circulation.

Such transformations were not advantageous for the capitalist traders and industrialists, whose natural element is speculation. However, for the country as a whole these transformations were an objective necessity.

During the period of reconstructing the national economy, a struggle occurred in the field of money between the organized circulation of money and the chaotic capitalist market. The steady expansion of the organized circulation of money reflected the successes of the socialist economy in its struggle against the capitalist economy.

During the three-year period of reconstructing the national economy, commodity turnover in our country expanded considerably on the basis of the development of production. Taking the volume of sales on the domestic market in 1950 as 100, in 1952 it was 170. This was a very high rate of growth. State and cooperative trade developed especially rapidly during this period. Turnover in state trade in

1952 was more than four times that of 1950, and in cooperative trade it was more than six times that of 1950. The share of socialist trade in the country's total domestic trade increased from 19.4 percent in 1950 to 51.9 percent in 1952. The over-all growth in commodity turnover occurred predominantly because of the expansion of state and cooperative trade. This was quite an important factor, promoting the development of production, and ensuring the satisfaction of demand on the part of the state and the population for goods and the stabilization of the market.

Socialist trade, representing the organized part of commodity circulation, is based on an uninterrupted development of the production of goods by state industry, on a regular growth in state orders for the processing of raw materials and semimanufactures, on the manufacture of finished products by private industry and the purchase of these products, and on the expanded purchase of subsidiary agricultural production at just prices to satisfy the requirements of different branches of the economy and of the population.

Such an organized circulation of commodities is the base for an organized, planned circulation of money. The planned, regulated circulation of money is in turn one of the most important instruments for the organized development and strengthening of the socialist economy.

Along with socialist trade, capitalist trade, based on the capitalist sector of the economy and private business, continued to play an important role in this period. The share of capitalist trade in total commodity turnover fell from 80 percent in 1950 to approximately 40 percent in 1952. However, in absolute terms turnover in capitalist trade did not decrease and even increased somewhat.

Although capitalist trade, under the guidance of the state, played a positive role to a certain extent in the development of commodity turnover between town and country, due to its exploiting nature, expressed as a striving for profit, it had a negative effect on the national economy as a whole. Trade based on a striving to obtain capitalist profit has a chaotic unorganized nature and thus creates the conditions for chaos in the circulation of money.

Since an organized socialist market and a chaotic capitalist market both existed, a struggle between them was unavoidable. This struggle also affected the circulation of money. The process of steady development in planned, organized commodity production and commodity circulation is simultaneously a process of steady development and subsequent strengthening of the organized circulation of money.

The planned organized regulation of the circulation of money, the prompt issue of the necessary amount of money into circulation, and the removal of money from circulation serve as powerful instruments in the hands of the state in its policy of limiting and transforming the capitalist economy.

The struggle against the chaos of the capitalist market by means of the monetary policy implemented during the reconstruction period in consideration of the condition of the national economy and the party's and government's over-all policy can be divided into three basic stages.

The first stage includes the period of planned organization of money turnover, of halting inflation, and of stabilizing the circulation of money, and the process of reconstructing the national economy and developing the socialist sector in all branches of the economy to the detriment of the capitalist elements.

With the halting of inflation and price increases, the situation in the socialist sector of the economy began to improve rapidly. In the capitalist sector, on the contrary, this created difficulties. During a short period of time, from April to June 1950, prices fell by more than 10 percent, speculative buying and selling on the market was replaced by stagnation, difficulties arose in the turnover of enterprise funds, and part of the capitalist industrialists and traders, not able to stand the competition, were in a critical situation. In this connection some industrialists and traders began to express loud dissatisfaction with the government's economic policy.

What caused the difficulties which the capitalist industrialists and traders met, and what was their nature? These difficulties arose for the following reasons.

First, a number of industrial and trade enterprises, having developed their activity in conformity with the conditions of a colonial, semicolonial or feudal economy, lost the market for their products after the elimination of imperialism, feudalism and bureaucratic capital in the new China since many of their goods were not in demand by the people. As a result, a certain number of industrial and trade enterprises went bankrupt.

Second, the staffs of many private enterprises were excessively large, and their activity was inefficient, especially during recent years when, utilizing the growth in prices, they conducted improper operations in the pursuit of illegal profits. As soon as the market was stabilized the inefficiency of their activity became immediately evident. Part of the industrial and trade enterprises were compelled to reduce their operations or even discontinue them.

Third, due to the stabilization of currency and prices the fictitious purchasing power, swollen by inflation, was reduced and market supply temporarily exceeded demand; prices fell, and there were difficulties in selling some goods. All this caused a further reduction in the population's real purchasing power, which had been considerably reduced during the long war period.

Of these three causes, the first two are prolonged in character. The capitalist industrial and trade enterprises could not quickly overcome their basic weakness and reorganize their activity in conformity with the requirements of the new democratic economy. The third cause

was temporary in character. With a strengthening in the leading role of the state sector of the economy and with the development of production and increase in the population's purchasing power, the situation normalized quickly. These changes had a quite real effect on the circulation of money.

As the result of implementing general economic and financial measures, from March to May 1950 the amount of money in circulation fell by approximately 10 percent and prices fell by more than 10 percent. The velocity of turnover of money gradually became normal, and the functions of money began to develop more normally.

As prices became stabilized the population's attitude toward goods and money changed. Goods began to be changed into money, and for some time the supply of goods on the market began to exceed demand and prices began to fall. The reduction in the velocity of turnover of money led to the situation that the amount of money in circulation could not conform with the requirements of commodity turnover.

The withdrawal of a great amount of money from circulation, the steady reduction in prices, and the attempts by the population to sell rather than buy goods all caused a reduction in the volume of sales and even stagnation in the market. The temporary difficulties which arose were difficulties of growth. But if these difficulties were not promptly overcome they could have an unfavorable effect on the whole national economy.

In the light of this, the central task in the field of the circulation of money, intended to promote the bringing of order to industry and trade, was the transition to planned regulation of the circulation of money. Such regulation was to promote the reanimation of the market and expansion of production, thereby creating favorable conditions for the development of the whole national economy of the country with the state sector of the economy playing the leading role.

During this period the government adopted a decision to sharply increase the volume of People's Bank credit to state trade, with the purpose of having a planned increase in orders placed with private enterprises for the processing and purchase of goods; this was to solve their sales problem. At the same time purchases of agricultural products were increased, and the issuance of money was increased in cities and in the country, mainly to increase the purchases of agricultural products.

The issuance of a large amount of money in the countryside for the above indicated reasons promoted a reanimation of the market as a whole, creating an incentive for cooperatives and private traders to normalize commodity turnover between the city and the country.

At the same time the government implemented measures to develop transportation and regulate the tax system. As the result of consistent implementation of the indicated measures, at the time of the new harvest the market situation had become stable. Implementation of the policy of placing state orders with private industrial and trade

enterprises and purchase of products became one of the basic forms of initial socialist transformation of these enterprises.

The second stage was characterized by a reduction in the issuance of money during the movement against American aggression and for assistance to Korea, and also with the purpose of stabilizing the market. Subsequently, there was an increase in the issuance of money when the market was stable; this was to promote an expansion of state purchases of agricultural products, a strengthening of the union between workers and peasants, and a considerable reanimation of the market.

In the winter of 1950 the Chinese people began a great struggle against American aggression and to assist Korea. All the people, inspired by a lofty spirit of patriotism and internationalism, rose up in the defense of justice, peace and the security of their country, sparing no efforts or resources. Certain capitalists decided to make use of the situation, intending to become rich through speculative machinations, inflation and price increases. The capitalists began to stockpile goods and speculate with them. At the same time some establishments and part of the urban population, remembering the wartime experience, rushed to remove their deposits from the People's Bank and convert them into goods, insuring their savings against depreciation. Tension was created on the market.

All this took place during a rich harvest season when issuance of money and expanded credits for purchases of agricultural products were necessary to strengthen the ties between the city and the country. The situation was fundamentally different from that of March-May 1950. At that time the circulation of money was narrowing and the amount of means of payment in circulation could considerably exceed the requirements of commodity turnover.

Thus, from one point of view, it was necessary to issue large amounts of money for the huge purchases of agricultural products and the sale of the harvest, and from another point of view, that of the struggle against the American aggression and for assistance to Korea, it was necessary to ensure a stable market and strengthening of the home front. The resolution of this temporary contradiction and the implementation of measures to stop speculation and avert depreciation of the money became exceptionally important. In this connection, the Financial and Economic Committee of the State Administrative Council of the Central People's Government adopted a decision providing for a saving in budget expenditures by postponing payments for a number of expenditure items or completely revoking them in the aims of reducing the issuance of money, for a temporary freezing of deposits of state establishments and military organizations in the People's Bank, for a reduction in purchases of agricultural products, and for a reduction in granting of credits. This was to ensure better control over the issuance of money and to eliminate the danger of chaotic dissipation of materials and money which had concentrated in state trade and in the People's Bank.

The implementation of these measures strengthened the state sector of the country's economy and stabilized prices.

In December 1950, when a normal market situation was restored, it became necessary to increase purchases of agricultural products, increase credits to state trade and the supply and sales cooperatives, grant seasonal credits to the peasants, and to issue the appropriate amount of money in the countryside in a planned way. All of this re-animated the city and rural market.

The third stage was the withdrawal of money from circulation during the "three anti's" and "five anti's" campaign conducted to strike a blow against the capitalist elements and the subsequent planned issuance of money into circulation to reanimate the market.

As the result of the movement to regulate industry and trade, the situation in capitalist industry and trade in 1950 improved; this was the effect of the state support in the form of orders for the processing of raw materials and for finished products, of organizing supplies of raw materials, of taxation, and of a number of other measures. The rich harvests of 1950 and 1951 caused an increase in the peasants' purchasing power; the purchasing power of the urban population also increased. At the same time, in connection with the assistance to Korea, state requirements for industrial and cottage industry goods increased sharply. The growth of demand by the population and the government caused a shortage of many goods. During this period the quite improper activity on the part of many capitalists also was exposed; they were not scrupulous in the choice of means in their pursuit of profits, and caused direct harm to the people.

During March-May 1950 the capitalists, in difficulties, hoped that the state orders for the processing of raw materials and for finished products would help them overcome the difficulties. But now, considering that these orders were limiting their profits, they started open resistance in the hopes that they would succeed in again getting production and sales into their own hands and thereby ensure themselves super-profits. They were not satisfied with the profits which they obtained from normal activity. They began to conceal and understate their reserves of raw materials, to avoid paying taxes, and to bribe government employees; in short, they were brutally criminal against the worker class and state sector of the economy.

In the winter of 1951, with the approach of the seasonal upswing in trade, the bourgeoisie began open warfare against the restrictions on their activity. To strike a blow against the capitalist elements with strict observance of the principles of the socialist economy and in the interests of the masses of workers, the government headed the great people's campaign of the "three anti's" and "five anti's" and won a brilliant victory.

Along with the great achievements in the political field and in the field of strengthening the guiding role of the state sector of the economy and overcoming the elements of chaos in commodity circulation,

considerable changes also occurred in the sphere of the circulation of money. During the struggle against bribery, wastefulness and bureaucracy, potentials for state and cooperatives to save on expenditures and increase revenues were discovered.

In state trade and the supply and sales cooperatives sales increased, purchases were reduced, and orders placed with private enterprises for the processing of raw materials and for finished products were reduced. At the same time state trade conducted a rational price reduction on many manufactured consumer goods. The over-all price index was reduced by approximately 5 percent. Many private industrialists and traders lost the faith of the people and their enterprises decayed; the trade of even small private traders, who serviced the commodity turnover between town and country, decreased. These phenomena were especially noticeable by the summer of 1952. Market prices continued to fall and symptoms of stagnation, unfavorable for the national economy, appeared. For this reason, in May-June 1952 the Financial and Economic Committee of the State Administrative Council adopted a decree on the implementation of decisive measures to reanimate the market.

Rational norms for the placement of orders with the private sector for the processing of raw materials and for finished products were worked out. The People's Bank began to increase credits to socialist trade in every possible way, promoting the planned placement of a large number of orders with the capitalist sector for the processing of raw materials and for finished products with the purpose of concentrating commodity resources for the fall upswing in the market. Markets were organized everywhere and again the activity of the small traders in trade between town and country began to be encouraged. The People's Bank reduced the interest rate on credits and resumed granting credit to capitalist industry and trade. After a joint checkup on conditions at the local level by representatives of party, administrative and bank administrations, the volume of crediting was expanded somewhat and the amount of money in circulation was expanded; this had a part in reviving the market.

At the same time, the private banking offices, under the leadership of and with the assistance of the People's Bank, were gradually consolidated, and in September 1952 all the private offices, with the exception of three which served the Chinese emigrants, were merged into a single Joint State-Private Bank. This was an important measure directed toward the socialist transformation of our country's capitalist credit institutes. Under the general control and guidance of the People's Bank, a great step was made toward the creation of a uniform credit system.

The Joint Bank's credit operations were conducted in agreement with the state's general policy in the field of control over cash. This had an active role in the development of the country's national economy and created favorable conditions for the regulation of the circulation of money.

The organized development of the circulation of commodities and money promoted a reduction in the chaotic turnover of money between port cities. The rapid growth of socialist trade and operations by the People's Bank to service payments turnover in the city, the country, and between city and country, promoted a planned expansion of the market. A higher form of organization, mixed state and private, i.e., the form of state capitalism, was created for operations of the capitalist sector.

Funds of capitalist enterprises circulated between port cities mainly in two forms: drafts and cash settlements.

The center of capitalist industry and trade and also the center of the concentration of capitalist payments turnover was Shanghai at that time. During the three years of reconstructing the national economy the volume of draft transactions by capitalist enterprises between Shanghai and other port cities reached huge dimensions. Ties between Shanghai and other cities were extensively developed and firm.

Below are data on the volume of drafts sent through Shanghai by private entrepreneurs (in percent):

	<u>Second</u> <u>Half</u> <u>of 1949</u>	<u>1950</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1951</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1952</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>
Drafts sent off	100	451	1,060	1,120	1,443	415	550
Drafts received	100	516	1,060	1,213	1,320	485	701
Total	100	480	1,042	1,170	1,390	455	630

The share of the People's Bank and of the private banking offices in the total volume of private drafts sent through Shanghai was (in percent):

	<u>Second</u> <u>Half</u> <u>1949</u>	<u>1950</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1951</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1952</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>
Drafts sent off	100	100	100	100	100	100	100
Through the People's Bank	40	45	38	36	46	56	74
Through private banking offices	60	55	62	64	54	44	26

	<u>Second</u> <u>Half</u> <u>1949</u>	<u>1950</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1951</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>	<u>1952</u> <u>First</u> <u>Half</u>	<u>Second</u> <u>Half</u>
Drafts received	100	100	100	100	100	100	100
Through the People's Bank	40	55	44	53	58	66	81
Through private banking offices	60	45	56	47	42	34	19

Thus, from the second half of 1949 through 1951 private drafts sent through Shanghai increased sharply. During the second half of 1951 drafts sent off increased by more than 14 times compared with the second half of 1949, and drafts received increased by more than 13 times. The total volume of drafts was almost 14 times greater. This is a witness to the restoration and development of private trade ties between different port cities.

In 1952, thanks to the development of the "three anti's" and "five anti's" campaigns and the rapid expansion of state and cooperative trade, the share of the socialist sector of trade increased. And although private trade turnover in value terms was greater in 1952 than in 1950, with the considerable growth in wholesale turnover of state trade private trade between port cities showed a tendency to decrease.

In the sphere of the circulation of money this tendency was expressed in a reduction in the total volume of private drafts between port cities. During the first and second halves of 1952 the total volume of private drafts in Shanghai decreased by 62 percent and 54 percent respectively compared with the same periods of 1951. The share of the People's Bank in the total volume of drafts (sent off and received) was 40 percent during the second half of 1949, and in 1952 it increased to 74 percent during the first half year and to 81 percent during the second half year. In this period the preponderant majority of private banks had already been transformed into joint state private banks, and the volume of drafts connected with organized commodity turnover of the state sector of the economy increased almost 400 times. According to data for the end of 1952, the state and cooperative sectors accounted for over 85 percent of the total volume of drafts sent through Shanghai while the share of private drafts was less than 15 percent. Moreover, 75 percent of the private drafts passed through the People's Bank, and the remaining 25 percent through the Joint Bank which carried out its activity under the guidance of the People's Bank. The fact that the share of the socialist sector in payments turnover between port cities increased, and that the preponderant part of the drafts of private firms and persons were sent

through the People's Bank, serves as irrefutable confirmation of the rapid development of the socialist organized market and of organized payments turnover with a steady reduction in unorganized commodity and money turnover of a chaotic nature.

Cash settlements between small private traders comprised the second important form of payments turnover of port cities. This form of settlement was widespread during the period of reconstructing the national economy. During the three years there was a constant flow of money from Shanghai; the only exception was three months when there was a small influx. This was due to the fact that the small private traders used cash to make purchases of agricultural products in the provinces of Kiangsi and Chekiang which were then sold in Shanghai. In this connection, there was usually a flow of money into many counties and cities in these provinces. For example, money put into circulation in the forest regions and in the country of Sung-chiang Province usually flowed into Harbin. This was caused not only by the fact that the workers and peasants came to the city markets themselves to purchase goods, but also by the fact that private traders were engaged in speculation and the resale of goods. In some places (Shanghai and the provinces of Chekiang and Kiangsu), money issued into circulation in the cities flowed into the country, and in other places (the forest and rural regions of Sung-chiang Province and the city of Harbin), the money issued in the rural regions flowed into the cities. Such a situation indicated the weak development of state and cooperative trade here. Trade was conducted by small private traders or by consumers who went to other regions themselves to purchase goods. Therefore, the sphere of the circulation of money was characterized by a chaotic migration of money. As socialist trade developed this phenomenon was gradually overcome.

All this data clearly indicates that not only does the concentration of control over the organized circulation of money in the hands of the people's democratic government enable prompt and flexible action to change the market situation, but it also promotes the development of the socialist economy and serves as an instrument to strengthen the guiding role of the socialist sector in the country's whole economy.

The above indicated forms of struggle for planned, organized money turnover at the same time effectively promoted the suppression of speculative activity by the capitalists and the revival of the market.

The organized circulation of money was not, and could not be, created by the efforts of the People's Bank alone. It was the result of the joint efforts of the financial organs, state trade, banking establishments, and all the enterprises of the socialist sector of the economy. The People's Bank was only one of the institutions which played an active role in this field.

The economic basis for the creation and development of the organized circulation of money was the socialist sector of the economy, socialist production relations having developed in conformity with the law of planned, proportional development of the national economy. The organized circulation of money created on this economic base served, in turn, as an instrument to actively promote socialist construction. Commodity production in a socialist economy is planned and circulation is organized. This has a definite influence on the circulation of money and serves as a basis for transforming it into planned circulation of money. Important conditions for strengthening and developing the organized circulation of money are: the centralization and balancing of state budget revenues and expenditures, unification of the circulation of money on a country-wide scale, and the presence of a single state bank conducting the socialist transformation of private banking establishments.

The creation and development of the organized circulation of money is not a chaotic process but the result of conscious, lengthy and persistent work organized and guided by the people's democratic state in agreement with its requirements and possibilities.

During the anti-Japanese war and the people's liberation revolutionary struggle, the governments of many revolutionary bases in the liberated regions issued orders forbidding state organizations and enterprises to have deposits in private banks.

In the spring of 1949 in the Northeast liberated region, control was first of all established over cash. After formation of the People's Republic of China, in agreement with the decree of the State Administrative Council of 7 April 1950, control over cash was established on a state-wide scale. At the same time, the need for compiling plans for revenues and expenditures of cash was indicated; this was to promote the gradual transformation of the People's Bank into the country's single cash center.

From the very beginning of control over the movement of cash the positive aspects of this measure were apparent. During three months, from the end of February to the end of May 1950, total deposits in the People's Bank of China and the volume of drafts sent between port cities increased five times; clearing settlements increased sharply. During the last 10 days of April the ratio between clearing and cash settlements was 8:1, and during the last 10 days of May it was 9:1. After this clearing settlements continued to increase uninterruptedly.

Not only did these rational and prompt measures play an important role in solving such urgent tasks as the suppression of inflation, the concentration of funds, and the balancing of revenues and expenditures of cash; they were also some of the basic methods for stabilizing currency and prices. They simultaneously prepared the soil for the creation of a healthy money system and for the organized, planned circulation of money. The work in the field of the organized circulation

of money during all the past years has been conducted mainly in agreement with the decree of the State Administrative Council just mentioned.

Great efforts were required to achieve a conclusive victory in the struggle against American aggression and for assistance to Korea. To organize support of the front and assist economic construction, it was necessary to support a stable circulation of money. This required that the development of the circulation of money and of credit proceed in a socialist direction. In other words, it was necessary that the People's Bank, on the base of the state sector of the economy which had developed, regulate, in a concentrated and planned way, the circulation of money, and start to create a socialist credit system.

On 25 December 1950 the Financial and Economic Committee of the State Administrative Council issued the decree "On the Procedure for Realizing Control over the Circulation of Money and the Procedure for Compiling the Cash Plan." The purpose of this measure was to strengthen the currency by establishing effective control and regulation of the circulation of money so that government funds dispersed among various projects could be used in a centralized and effective way to satisfy the state's huge requirements for resources for economic construction and to promote the introduction of economic accountability and planning.

The decree provided for control over the movement of the cash of state enterprises, establishments and organizations and of cooperatives, and also for the organization of clearing operations, the concentration of mutual settlements and short-term crediting in the People's Bank, and control over funds allocated for capital investments.

A number of errors occurred during the implementation of these measures because part of the banking apparatus was not yet sufficiently familiar with the nature and tasks of the organization of socialist credit. However, on the whole the great work done to create socialist credit was of great importance.

Further measures for the continuous improvement of the monetary and credit system corresponded to the over-all improvement in the economic situation and showed clearly the advantages of the socialist credit system.

In agreement with the above mentioned decree, the People's Bank organized a system of clearing operations between state and cooperative enterprises on the basis of canceling mutual demands (mutual settlements). The introduction of this form of settlements is a further step in the direction of developing a socialist credit system.

Mutual settlements helped the People's Bank to mobilize temporarily free enterprise funds in every possible way and promoted the ensuring of economic use of state funds; the saving in the use of cash

was especially considerable. Mutual settlements promoted the development and strengthening of economic ties within the socialist sector of the economy; they created favorable conditions for the further strengthening of the role of the People's Bank as the country's credit-settlement center and for the planning of the circulation of money.

Recent years' experience proves that the socialist system of settlements and control over cash plays an important role in the work of the different state financial and economic organs in planning the economy, in the centralized planning of the resources of the different branches of the national economy, in the prompt elimination of shortcomings in the work, in promoting an increase in receipts and a saving in cash expenditures, and in the planned regulation of the circulation of money.

IV The Development of the Circulation of Money in the Countryside and Its Role in Expanding Commodity Turnover Between City and Country

During the period of reconstruction of the national economy, the small peasant economy in our country, freed from the fetters of feudalism, changed into an individual peasant farm economy under which the peasants themselves cultivate their own land section. With the guidance and support of the government our agriculture, constrained in the past by the feudal system, began rapid reconstruction and development.

The individual peasant farm economy is a small-scale commodity production economy; its commodity production is regulated by the law of value. Therefore, the following factors play a quite important role in the development of agricultural production: the possibility of selling the agricultural produce at the suitable time and at profitable prices; the possibility of the peasants buying, at the same time and at rational prices, the needed means of production and industrial consumer goods; the establishment of a rational ratio between prices on agricultural produce and on industrial goods; and the free development of commodity turnover between city and country, which requires a stable currency.

After stabilization of the currency the peasants gradually began to use money, to keep it and to prefer exchanges involving money. This new tendency in the sphere of the circulation of money was of great importance: it promoted the penetration of money into the country, thanks to which the circulation of money in the country began to develop gradually, and economic ties between city and country strengthened.

Beginning with March 1950 the amount of money in circulation in the countryside steadily increased and the people's yuan had firmly

entered into circulation. The share of money in circulation in the countryside in the total money in circulation increased considerably.

The following three causes for these changes can be pointed out.

First, the value of the yuan became stable; it had withstood a relatively long test. Many years of inflation had caused considerable losses among the peasant masses, and the losses due to the low marketability of agricultural commodities and to poor means of communication were especially severe. In the light of this, during the beginning stage of stabilization of the yuan the peasants did not immediately have faith in money. A development of state and cooperative trade in the countryside in every possible way was required in order to convince the peasants that they could use their money to acquire the necessary production materials and consumer goods at stable prices, that the yuan was ensured by goods. Thus, a decisive condition in the process of development of the circulation of money was not only the stabilization of the people's yuan, but also the strengthening of the peasants' faith in money. It was necessary that the peasants who received money would not be afraid of its depreciation, but would recognize that, having this money, they would lose nothing and would even gain.

That is why a relatively long interval of time after the halting of inflation was required before the circulation of money began to serve commodity turnover in the countryside normally, and before the conversion from barter to normal commodity turnover was completed.

Second, the gap between prices on industrial and agricultural products decreased. During the period when capitalist trade predominated, the price discrepancy between industrial and agricultural products grew every day. The seasonal difference in prices was huge. In the fall, after the harvest, a great amount of agricultural produce entered the market and its price fell, while prices on industrial goods increased. In the spring and summer the peasants hardly made ends meet and many of them were even compelled to buy grain, which caused prices on agricultural products to rise. Industrial products, on the way from the city to the country, passed through the hands of large-, medium-, and small-scale trader-middlemen. Such a multitude of steps increased trade profits and handling costs. Therefore, the difference in prices on goods in the trade between port cities and in trade between city and country was great; the difference between wholesale and retail prices was just as great. Price variations and losses due to the difference in prices, in the final analysis, lay in all their weight mainly on the shoulders of the mass of poor peasants.

During the period of reconstruction of the national economy this situation changed fundamentally. Beginning with the summer of 1951, the discrepancy between prices on industrial and agricultural products narrowed steadily, as demonstrated by the example of Shanghai prices.

Change in Wholesale Price Index in Shanghai
(March 1950 = 100)

	June 1951	December 1952
Over-all price index	97	87
Price index for agricultural products	86	93
Price index for industrial goods	100.2	80
Difference between prices (price discrepancies)	110	86

Thus, during the period from March 1950 through 1952, prices in Shanghai stabilized and gradually began to fall. The discrepancies between prices on industrial and agricultural products in December 1952 were 14 percent below those of March 1950.

The price reduction process was uneven, however, and falls into two stages. From March 1950 to June 1951, i.e., during the initial period of reconstructing the national economy, prices on agricultural products fell, but prices on industrial goods remained almost stable. Therefore, the price discrepancy even increased somewhat. After the implementation of the agrarian reform, agriculture began to develop relatively rapidly; the share of agricultural production rose considerably, and the share of state and cooperative trade remained inconsiderable; although the production of industrial goods increased rapidly, it did not yet satisfy demand.

From the fall through the end of 1952 prices on industrial goods fell considerably while prices on agricultural products rose. Therefore, the price discrepancies did not increase, but, on the contrary, began to decrease. The stabilization (and even a certain reduction) of prices on industrial goods, with some increase in agricultural prices, reflects the growth in industrial production and the increase in labor productivity. This process reflects the price policy of our government, which was making huge purchases of agricultural products for domestic consumption and for export, a policy of strengthening the union between workers and peasants.

The basic factors in the reduction of price discrepancies were the development of industrial and agricultural production, the growth in state and cooperative trade, and the policy of rational prices.

If we compare prices on products of crop growing and animal husbandry in national minority regions with the prices at which these regions were supplied with industrial goods, this tendency of price discrepancies to decrease is shown even more clearly. Thus, in Hsining city in Chinghai Province, before the liberation 100 chin of sheep's wool was exchanged for 25 chih of cloth, and in December 1951

it was exchanged for 313 chih of cloth; i.e., over 12 times more cloth was obtained for the wool. One ton of grain in Inner Mongolia was exchanged for one piece of cloth in 1947, and for 2.2 pieces in 1950; i.e., during the four years the coefficient of exchange more than doubled.

These changes played an important role in improving the living conditions of the national minorities, and in developing production in the national regions.

Third, operations of state trade, of the supply and sales cooperatives and of the People's Bank in the countryside expanded. During the three years of the reconstruction period state trade steadily increased purchases of agricultural products and expanded the supply of industrial goods to the countryside. Supply and sales cooperatives received especially extensive development. In the second quarter of 1952 there were 32,000 of them with 100 million members.

The supply and sales cooperatives, under the guidance of the state sector of the economy and with its assistance, supplied their members with the necessary production materials and consumer goods at prices which were no higher, and sometimes even less, than market prices. At the same time they purchased agricultural products at rational prices from the members of the cooperatives, thus ensuring organized commodity turnover between city and country.

When the rural markets were held the People's Bank created operations groups to issue credit, receive rural deposits, and guide credit cooperation. Thanks to this, a great number of scattered individual peasant farms were able to completely avoid depending on exploitation by trading and money-lending capital or at least to reduce this dependence. The peasants could reduce or even discontinue the sale of their products at the low prices caused by seasonal or other factors, and could sell their products at rational prices, which enabled them to promptly satisfy their requirements for industrial goods also at rational prices.

Thanks to the organizing role of the state sector of the economy and its control, seasonal and regional price discrepancies, and also the discrepancy between wholesale and retail prices, were reduced considerably.

In respect to trade with the peasants, the state sector of the economy and the cooperatives followed the principle: "a sufficiency of personnel, a sufficiency of goods, a sufficiency of money." This principle served to guarantee the implementation of the state price policy.

The beginning of organization of socialist trade not only ensured a reduction in price discrepancies, but directly supported the circulation of the people's yuan in the countryside. During three years from the time the money penetrated into the countryside the circulation of money gradually widened and the functions of money developed.

Because of the considerable share of agricultural production in our country, seasonality causes changes in the circulation of money.

During three years, from 1950 to 1952, the total value of industrial output increased by 156 percent, and the share of modern industry in the total value of industrial and agricultural output grew from 17 percent to approximately 28 percent. The rate of growth of industrial output was relatively greater than the rate of growth of agricultural output.

The share of industry in the total output of the country's national economy grew rapidly; agricultural production also developed at high rates. In 1952 the total value of agricultural output was 45.9 percent greater than in 1949; i.e., the average annual increase was more than 10 percent. In the same year the share of agricultural output in the total value of industrial and agricultural output fell to approximately 72 percent. The rate of growth was somewhat lower than that of industry. The share of agricultural output in the total volume of output of the whole national economy also fell, but was still greater than 2/3. The absolute growth figures were truly grandiose.

From year to year, after the harvest, receipts of huge amounts of agricultural products on the market were accompanied by an increase in the amount of money in circulation, which had a favorable effect on reanimating and stabilizing the market.

Taking the average annual amount of money in circulation as 100, the seasonal variations in money appear as below (on the average for the quarter):

<u>Year</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>End of the Year</u>
1950	76.3	96.0	89.3	119.2	145.4
1951	76.5	89.0	100.2	129.9	143.0
1952	91.5	85.9	94.8	120.3	140.8

During the fourth quarter, the season of greatest trade, the amount of money in circulation is greatest. On the average the amount of money in circulation in this quarter is approximately 40 percent greater than during the first and second quarters (the seasons of the least amount of money in circulation), and is 20 percent greater than the average annual amount of money in circulation. On the basis of the indicator at the end of the fourth quarter, during these three years the amount of money in circulation was more than 40 percent greater than the average for the year.

The active role played by the stable currency and the introduction of money into rural turnover in the reconstruction and development

of agricultural production appeared most of all in the creation of exceptionally favorable conditions for the expansion of commodity turnover between city and country.

Further, the necessary conditions were created for the expansion of socialist credit in the countryside. The People's Bank issued large credits and, jointly with the credit cooperatives, mobilized huge funds in the countryside. By directly assisting the peasants to develop their production, the credit establishments struck a blow against money lending.

V

The Influence of the Socialist Transformation of Capitalist Banking Establishments on the Circulation of Money

Capitalist banking establishments grew up and developed in old China during the period of rule by imperialism, feudalism and bureaucratic capital. Wartime inflation created a favorable soil for their speculation.

After the liberation of all the territory, there were over 900 private banks and banking offices in the country. Part of these establishments, whose activity was of a clearly speculative nature, as a result of our government's policy, were compelled to convert to other activity. The banking establishments which continued to exist played a double role during that period of our country's national economy.

On the one hand, operations by private credit establishments, conducted with the sole aim of extracting profits, aggravated the chaotic competition within the capitalist sector of the economy and were factors hindering the realization of the guiding role of the state sector of the economy. On the other hand, during the period when the operations of the People's Bank were not yet sufficiently developed, and the share of private industry and trade was considerable, the private banking establishments, under the guidance of the People's Bank, could play a certain positive role both in the matter of mobilizing resources and promoting normal turnover of funds of private enterprises and in the development of commodity turnover between different regions of the country. At the same time, since the staff of these establishments was relatively concentrated, it was easier to envelop their activity than to envelop the activity of the industrial and trade enterprises. This enabled the state to carry out the socialist transformation in the banking field earlier than in the other sections of the capitalist sector (private industry and trade.)

The basic path for the socialist transformation of capitalist banking establishments was the path of state capitalism, completed in two stages. In the first stage, with the purpose of guiding the private banking establishments, measures were implemented to concentrate their funds and their operations relating to the transfer of promissory

notes, the transfer of securities, and reinsurance and brokerage transactions in the People's Bank. This was a low stage of state capitalism. It was followed by the transformation of all the activity of these banking establishments on the principles of state capitalism, beginning in 1950 and ending in 1952. All the private banks, as already noted, were merged into a single Joint Private-State Bank, which conducted its activity under the guidance of the People's Bank. The private banks which joined the Joint Bank were paid a certain interest on their invested capital.

This was the first joint institute, created at an early stage from capitalist enterprises. The practice of paying a fixed interest on capital was used in the future during the process of transforming capitalist industrial and trade enterprises into joint state-private enterprises.

The transition to the higher stage of state capitalism by forming joint institutes in the field of banking had a great influence on the sphere of the circulation of money. Here it is necessary to note three chief positive points.

a. Turning the People's Bank into the country's settlement center and introducing clearing settlements. During the period when there were a large number of private banks, settlements between socialist and capitalist enterprises, as well as settlements between individual capitalist enterprises, were handled mainly through the private banking establishments or by means of these banking establishments through the People's Bank.

After the transformation of all private banking on the principles of state capitalism, settlements between socialist and capitalist enterprises and between capitalist enterprises began to be conducted through the People's Bank (partially through the Joint Bank which was under the control of the People's Bank), as well as all settlements between socialist enterprises. This promoted, in every possible way, the development of clearing settlements, the simplification of the mechanics of settlements, and a saving of cash.

b. Strengthening of the planned character of credit. The activity of the private banks could not be planned. Their credit operations were prompted by a pursuit after profits, and their activity was guided only by the consideration of gain, without consideration of whether it was suitable for the state and for the people. For this reason the operations of these enterprises were of a clearly chaotic and speculative nature.

After the creation of the Joint Bank, the activity of the private banks began to be conducted under state guidance. As a result the planned basis was considerably strengthened and credit, to a great extent, lost its chaotic and speculative nature.

c. Reduction of the chaotic money turnover between port cities and strengthening of control over cash as an important factor in the planning of the turnover of money. After the transformation of all the

activity of the private banking establishments, the local divisions of the People's Bank began to guide the local joint banks. This promoted a considerable reduction in the chaotic circulation of money between port cities.

Drafts and settlements between port cities began to be handled entirely through the People's Bank or through the Joint Bank controlled by the People's Bank. This told favorably on the regulation of cash by the People's Bank and on the planned regulation of the circulation of money.

Not only did the socialist transformation of all activity of the private banks favor the development of a socialist credit system and a strengthening of organization and planning in the sphere of the circulation of money; it also played an active role in realizing the socialist transformation in capitalist industry and trade.

VI

The Further Strengthening of an Independent, Unified and Stable Monetary System

During the period of reconstructing the national economy, when our country's economy was on the upsurge, there was also an improvement in the balance of payments. During these three years the situation which had existed in old China for over 70 years, and in which the trade balance had a deficit every year and receipts of foreign currency did not cover import requirements, was ended. Moreover, the development of exports in every possible way, the increase in receipts of a non-trade nature, and the credit obtained from the Soviet Union made it possible to balance the balance of payments and even accumulate a reserve of foreign currency and a considerable reserve of gold. All this promoted the strengthening of an independent currency system in our country.

Since the value of the people's yuan was stabilized but the currency of the capitalist countries depreciated, it was necessary to raise the rate of exchange for the yuan in respect to the foreign currencies correspondingly to protect our currency from the effect of the devaluation of the capitalist countries' currencies. Thus, from April to December 1952 the rate of exchange of yuan for dollars was raised 36 percent, and for English pounds, 30 percent.

With the purpose of strengthening our country's currency system and counteracting the undermining activity of American imperialism and the Chiang Kai-shek elements, the State Administrative Council, on 6 March 1951, published the decree "On the Prohibition of the Export and Import of the National Currency across the State Border." The decree provided that persons caught exporting or importing the national currency across the border, as well as those guilty of sabotage, and persons carrying counterfeit notes of their own manufacture,

were to be handed over to the investigation and legal organs with the material evidence for punishment according to law. Forbidding the transport of the national currency across the border witnessed to the implementation of an independent currency policy, and also struck a powerful blow against the reactionary sabotaging elements who were attempting to harm our circulation of money by using counterfeit notes.

On 19 April 1951 the State Administrative Council published the order "On the Punishment for Violating the State Circulation of Money." The order provided that, for counterfeiting notes with counterrevolutionary purposes, the chief perpetrators and transgressors with malice be sentenced to death or to life imprisonment. Transgressors without malice are subject to life imprisonment or imprisonment for 7 to 15 years.

The government, depending on justice and law, struggled against the Chiang Kai-shek clique and its toadies who forged people's money for counterrevolutionary purposes. At the same time, the government, with the aid of various lower organizations, mobilized the masses in the struggle against the obstruction of the circulation of money with counterfeit notes.

Thanks to the warm support on the part of all the people, the success of this struggle was ensured, strengthening our country's monetary system even more. It is necessary, however, to remember that the struggle was not yet entirely completed and therefore it would have been inexcusable to lessen watchfulness.

VII

Peculiarities of the Circulation of Money During the Period of Reconstructing the National Economy

During the initial period of reconstructing the national economy the circulation of money in our country, as we saw, changed radically as expressed in the transition from inflation to a stable circulation of money. As the result of the measures implemented to realize control over cash and to develop clearing settlements, money settlements were of two types: cash settlements and clearing settlements.

The main channels through which cash was issued were: state expenditures for the purchase of agricultural products, wage payment, and purchase of products from private enterprises. The main channels through which cash was withdrawn were: receipts from the retail trade of socialist enterprises and wholesale sale to private enterprises. During the period of reconstructing the national economy the growth of the amount of money in circulation exceeded the growth of commodity turnover.

Because of the exceptional importance of these changes, it is necessary to describe them in more detail so as to better understand their causes and results.

1. From inflation to a stable currency. From the time of the formation of the People's Republic of China to the end of 1952, i.e., during three years and three months, the situation in the sphere of the circulation of money was characterized by the following features. In the initial stage (October 1949-March 1950), the currency was unstable; prices in Shanghai rose more than eight times. In March 1950 inflation was checked and the stabilization process began. Taking the wholesale price index in March 1950 as 100, at the end of 1950 it was 85.4. At the end of 1951 it was 96.6, and at the end of 1952, 90.6. Thus, at the end of 1952 prices were 9.4 percent lower than in March 1950. The purchasing power of the currency was being fixed and even increased somewhat.

Beginning with March 1950 money was no longer issued to cover the budget deficit, but was used as People's Bank resources for granting credits. Bank credits were directed mainly toward satisfying the needs of commodity turnover. Such credits, insured by commodities and materials, promoted a circulation of money in agreement with the requirements of commodity turnover.

During the process of converting from inflation to stabilization two important changes occurred.

a. There was a tendency toward normalization of the velocity of circulation of money. It is known that with a fixed total of prices on goods, the amount of money needed for circulation is in reserve proportion to the velocity of circulation of money. The faster the money turns over, the less of it is required, and vice versa.

During a period of unstable prices the velocity of circulation of money is relatively high. With a conversion from inflation to stabilization, the velocity of circulation of money decreases and gradually approaches normal.

According to the data from an investigation of the special region of An-ch'ing, Anhwei Province, in March 1950 when price increases had not yet been completely stopped, the total volume of market commodity turnover was over 3.5 million yuan, of which 1.35 million yuan were accounted for by cash transactions. The amount of money in circulation was 95,000 yuan, and thus the money turned over 14.2 times. In April 1950, when prices began to decrease, the volume of market commodity turnover exceeded 2,340,000 yuan, including 966,000 yuan for cash transactions. The amount of money in circulation was 128,000 yuan; it turned over 7.5 times.

These figures show that during the short period of two months the velocity of circulation of money was cut almost in half.

Data on the change in the volume of deposits and check turnover for the People's Bank and the private banks of Shanghai are shown below (in percent):

	January 1950	April 1950
Total volume of deposits in banks and banking offices	100.0	258.0
Number of checks in circulation	100.0	30.6
Total volume of check circulation	100.0	60.0
Average size of check	100.0	168.0
Volume of check turnover in relation to the volume of bank deposits (volume of deposits = 100)	635.0	213.0

The tendency for prices to stabilize and the related huge changes in the field of the circulation of money caused a considerable expansion in credit operations by the People's Bank and private banking offices. Bank deposits in April 1950 were 158 percent greater than in January, and the share of People's Bank deposits in the total volume of deposits increased from 60 percent to 80 percent. The number of checks in circulation, reflecting settlements for commodity turnover, fell by 70 percent -- from 3,200,000 in January to 900,000 in April 1950. The volume of check settlements decreased by approximately 30 percent, and the average size of a check increased by 68 percent. This indicates a reduction in the speculative nature of trade, and its normal development. This tendency appears especially clearly when comparing the volume of commodity turnover in checks and the total volume of bank deposits.

In January 1950 the total volume of check circulation was 6 times the volume of bank deposits, and in April 1950, somewhat over 2 times.

The reduction in the velocity of turnover of money is one of the causes for a considerable increase in the amount of money in circulation and the higher rates of growth in comparison with the rates of growth of commodity turnover. This was especially acute since the period of stabilization occurred when inflation had just been checked.

b. Due to the fact that the process of stabilizing the currency began in March 1950, immediately after an acute and lengthy inflation, along with the stabilization of the currency there was a considerable increase in the amount of money in circulation and the rate of growth of the circulation of money exceeded the rate of growth of commodity turnover.

The expansion in the circulation of money was mainly caused by the growth in production and commodity turnover and by the increase in the population's cash income. During the period of reconstructing the

national economy the total value of industrial and agricultural output increased by 73.4 percent, and the total volume of goods sold on the market increased by 70 percent. Taking the volume of sales of certain important consumer goods in 1950 as 100, in 1952 the volume was:*

Grain	271.28
Yarn	171.43
Cotton cloth	245.76
Coal	141.86
Kerosene	262.67
Salt	152.89
Cigarettes	149.41

The amount of money in circulation in 1952 was approximately 3 times the average amount of money in circulation during 1951; i.e., it increased more than the sale of such very important consumer goods as grain and cloth.

From March 1950 to December 1952 there was an uninterrupted growth in the circulation of money. The only exception was the first half of 1952, when, in connection with the "three anti's" and "five anti's" campaign, market turnover fell and, during a short period of time, there was a reduction in the circulation of money. Although the amount of money in circulation during the first and second quarters was much less than during the second half of the same year, it exceeded the seasonal high of the fourth quarter of the preceding year. During the first halves of 1950 and 1951, i.e., during the quiet market season, the amount of money in circulation was less than during the peak season (the second half year) of the preceding year. However, commodity turnover was correspondingly less at the same time.

Taking the amount of money in circulation during the peak market season during the preceding year as 100, the changes taking place during 1950-1952 can be represented as follows:

* Yao I-ling, The Development of the Country's Trade During 3 Years, "Great Achievements of the PRC During 3 Years," People's Publishing House, 1953, pp 98-99.

<u>Fourth Quarter</u>	<u>First Quarter</u>	<u>Second Quarter</u>
<u>1949</u>	<u>1950</u>	<u>1950</u>
100.0	185.0	233.7
<u>1950</u>	<u>1951</u>	<u>1951</u>
100.0	133.7	161.0
<u>1951</u>	<u>1952</u>	<u>1952</u>
100.0	99.4	93.3

The figures show that during the first and second quarters of 1950 and 1951, in comparison with the fourth quarter of the preceding year (the peak market season), the amount of money in circulation, despite the relative reduction in the volume of commodity turnover, did not decrease and even increased. Only during the first quarter of 1950 did an increase in prices cause a growth in the circulation of money.

The amount of money in circulation during the first half of 1952, although less than in the fourth quarter of 1951, decreased less than commodity turnover decreased during the same time. Considering such factors as a certain stagnation in the market during the period of the "three anti's" and "five anti's" campaign and the related unusual flow of money out of circulation, one can conclude that the amount of money in circulation during the first half of 1952 did not decrease in comparison with the fourth quarter of 1951 since it corresponded with the requirements of commodity circulation. During that period, as we saw, prices were stable on the whole.

What then is the cause for the fact that during the slack market season the amount of money in circulation did not fall below the high seasonal point of the preceding period and even increased? Why didn't the development of the circulation of money correspond with the growth of commodity turnover and why, under these circumstances, was there no violation of price stability?

This was due to the expansion in the sphere of the circulation of money on the base of the development of production and commodity turnover, to the above-normal increase in the velocity of the circulation of money, and to the development of the circulation of money in the countryside and the replacement of barter with commodity turnover using money.

With the conversion from inflation to stabilization, as the result of the reduction in the velocity of turnover of money, there was a shortage of money, and in some regions there was no money at all. Under these conditions, the amount of money issued into circulation during the peak market season did not decrease upon the arrival of the slack season and the reduction of commodity turnover; money did

not flow out of circulation into the bank and it was even necessary to make supplementary issuances. Upon the arrival of the peak market season the issuance had to be continued. That is why the amount of money in circulation increased continuously during the whole period of reconstructing the national economy.

However, this was only a temporary phenomenon. In 1952 a sudden change was noted; in the spring the amount of money in circulation began to decrease; in the summer the reduction continued and the amount of money, in comparison with the fourth quarter of 1951, fell by approximately 7 percent. It is true that this reduction, as already noted, had special causes related to the "three anti's" and "five anti's" campaign. But the tendency in the sphere of the circulation of money was certainly revealed. During this period no significant flow of money out of circulation upon the arrival of the slack season was yet noted. But in comparison with 1950 and 1951, when the amount of money in circulation increased regardless of the season (on a smaller scale during the slack season, and on a greater scale during the busy season), the situation began to change. This was due to the fact that money began to enter rural turnover in increasing amounts; the shortage of money was overcome on the whole in most of the regions and the seasonal changes in the amount of money began to reflect the seasonal changes in commodity turnover.

The considerable increase in the amount of money in circulation during the period of reconstructing the national economy was not at variance with the preservation of market stability; on the contrary, for maintaining this stability it was necessary to have the corresponding increase in the amount of money in circulation. If this had not been the case price variations might have occurred with a related disruption of market stability.

2. The steady development of the organized circulation of money. The establishment of control over the movement of cash and over the implementation of clearing settlements was a new era in the development of the circulation of money in our country.

During the period of reconstructing the national economy clearing settlements developed extensively on the base of the rapid expansion of the state socialist sector of the economy, of which the guiding role in the national economy strengthened every day.

The state economy is the property of all the people and, consequently, here the interests of state and people coincide. At the same time, each individual enterprise implements economic accountability, and many types of complicated and close economic relations are established among thousands and tens of thousands of enterprises. All the commodity turnover, payments for services, and other payments between enterprises can be realized through the single state bank by means of clearing transfers.

The organization of divisions of the single People's Bank throughout the country created the prerequisites for converting it into

the country's settlement center. Settlements arising during the process of economic relations between state enterprises and establishments and supply and sales cooperatives are implemented through the People's Bank under the procedure of clearing settlements. This ensures a great saving in the use of cash and labor and creates a solid base for the planned regulation of the circulation of money. All this enabled the government to regulate the huge amounts of receipts and payments, amounting to tens and hundreds of millions of yuan, relatively easily.

In consequence of the fact that money turnover between socialist enterprises and organizations for the most part began to be handled by transfers through accounts in the People's Bank, and cash receipts and payments were limited mainly to economic relations between the state and the population, the channels for the influx and outflow of money changed fundamentally.

3. Changes in the channels of the circulation of money. The basic channels for the expenditure of cash by the state during the period of reconstructing the national economy were: purchases of agricultural products, payment of wages, and payment of private enterprises for orders for the processing of raw materials and for the purchase of their products. The basic channels for the reverse flow of cash were: receipts from retail sales by state and cooperative trade and from wholesale sales to private enterprises, tax payments, receipts from the sale of state loan bonds, and receipts from deposits and savings.

In Northeast China the change in payments and receipts of cash during the years of the reconstruction period, compared with the development of retail trade, appears as follows (in percent):

	<u>1950</u>	<u>1951</u>	<u>1952</u>
Retail trade	100.0	175.5	263.0
Receipts of cash	100.0	216.0	243.6
Payments with cash	100.0	225.0	249.0

Thus, along with a growth in the volume of retail trade, reflecting an increase in the population's purchasing power, there is a growth of receipts and payments in cash and the rates of growth almost coincide.

Below are data on the share of the individual items in the total amount of receipts and payments with cash in 1952 for several regions (in percent):

Total receipts of cash	100.0
Retail trade (state and cooperative)	43.6

Wholesale sales to private enterprises	18.4
Taxes (including the agricultural tax)	5.0
Repayment of bank credits	7.0
Other	26.0
Total cash payments	100.0
Purchases of agricultural products (including grain, industrial crops, and products of local and subsidiary industry)	35.5
Wages	33.6
Purchases of industrial products from private enterprises	2.2
Administrative expenditures	5.5
Issue of bank credits (mainly to agriculture)	17.8

The shares of the above indicated individual types of receipts and expenditures are, to a certain degree, typical for all regions. But in those regions where the share of socialist trade is relatively high, industry is relatively well developed, and there are also rather large purchases of agricultural products (for example, Sung-chiang Province), the shares of the individual items in the total volume of cash receipts and payments differ somewhat. The following data illustrate this (in percent):

<u>Receipts of Cash</u>		<u>Cash Payments</u>	
State and cooperative trade	60.2	Wages	44.3
Industry	16.1	Purchases from state and cooperative trade	38.0
Cultural and educational measures, public health, municipal economy	8.2	Expenditures for cultural and educational measures, public health, and municipal economy	4.7
Financial receipts (taxes and state loans)	8.2	Financial expenditures	13.0
Bank receipts (deposits)	7.3		
Total	100.0	Total	100.0

State and cooperative trade is the basic channel for removing cash from circulation; it accounts for over 60 percent of all receipts of cash. Although in some regions the share of wholesale sales to private enterprises is greater, in Sung-chiang Province, where there is a considerable number of socialist enterprises, retail trade accounts for a very high share of cash receipts.

If we examine cash payments on a country-wide scale, purchases of agricultural products stand in first place; as a result there is a great seasonal change in them.

In Sung-chiang Province (with a large share of industry) the first place in cash payments is held by expenditures for wages, which are distributed throughout the year relatively equally. As industrialization develops the total wage fund gradually increases.

In the field of regulating and organizing the circulation of money it is of great importance to relate the amounts paid in the form of wages with retail trade, and purchases of agricultural products with agricultural production and supplies of consumer goods to the countryside.

As the result of the development of the organized circulation of money, money began gradually to circulate within certain channels. It enters circulation mainly through the channels of purchases of agricultural products and wage payments, and flows into the bank through socialist trade channels.

The People's Bank's cash plan reflects the structure of workers' and peasants' cash income and the structure of their expenditures for the purchase of industrial materials and consumer goods. The cash plan and its execution can serve as an instrument of control for state organs in the field of financial and economic work.

During the period of reconstructing the national economy the state socialist sector of the economy was developed greatly. At the same time, under the guidance and with the assistance of the state sector, national capitalist industry and trade, in the past suppressed by imperialist, feudal and bureaucratic capital, also developed.

However, the essence of capitalism is a pursuit after profits and chaotic competition, while the essence of a socialist economy is concern over the good of the people, and the planned development of productive forces. That is why the struggle between the socialist economy and the capitalist economy represented the chief contradiction in economic life during the whole period of reconstructing the national economy. Our government's policy, directed toward the use, limitation and transformation of capitalist industry and trade, was the path toward the solution of this contradiction.

During the period of 1950-1952 our country's national economy developed rapidly. The following data illustrated this.

In the field of industrial production. Taking the volume of industrial output during the record year before the liberation (1936) as 100, in 1952 pig iron output was 98.5, steel output was 145, coal

output was 102, electric power output was 121, petroleum output was 136, cement output was 124, cotton yarn output was 144, cotton cloth output was 204, flour output was 123, and paper output was 226. It is apparent from these figures that, with the exception of pig iron, output of all other types of industrial products was greater than the highest previous level.

In the field of agricultural production. In 1952, taking the record year before the liberation as 100, production of grain was 109 and of cotton, 155.

In the field of domestic trade. The volume of sales on the market in 1952 was 70 percent greater than in 1950. Taking state trade turnover in 1950 as 100, in 1952 the total volume of purchases was 459, and of sales, 429.

In the field of finances. During three years (1950-1952), not only was the state budget balanced, but some excess of revenues over expenditures was achieved. In the 1952 budget revenues were 41.66 percent greater than in 1951, and expenditures were 55.52 percent greater. Over 50 percent of total budget expenditures were for economic construction, culture and education.

The value of industrial output in the aggregate value of industrial and agricultural output increased from 17 percent in 1949 to approximately 27.3 percent in 1952. During the same period the value of producer goods in the total value of industrial output increased from 32.5 percent to 40 percent.

The share of output by state industry in the aggregate value of industrial output was only 26.3 percent in 1949, and in 1952 it had increased to 41 percent (in addition, output of joint enterprises amounted to 5 percent, and that of cooperatives amounted to 3 percent).

The share of the state sector in wholesale trade was 64 percent, and in retail trade of large cities, 32 percent. In foreign trade, 90 percent of total turnover was accounted for by state organizations. (These figures on the development of the national economy have been taken from the collection, "Economic Successes of New China During 3 Years," pp 105-108, 198.)

The People's Bank of China opened divisions throughout the country and became a large, single state bank of the socialist type, turning gradually into the country's cash and settlements center and into a center for issuing short-term credits.

In 1952 the period of reconstructing our national economy ended. The task which Chairman Mao Tse-tung set forth in June 1950, to achieve a fundamental breakthrough in the country's financial and economic situation in three years or a somewhat longer time, was completed ahead of time.

The semicolonial, semifeudal economy of old China had been left in the past. During the transition period from capitalism to socialism the foundation was laid for the creation of an independent, new-democratic system of economy.

The reconstruction of the national economy prepared the conditions for the implementation of the First Five-Year Plan for the development of the economy, and for the transition to planned socialist construction and socialist transformation.

All this also caused changes in the nature of the circulation of money. Inflation was halted, money began to be issued in agreement with the requirements of commodity turnover, the sphere of the circulation of money was expanded, and the velocity of circulation of money was normalized. The functions of money which had been disrupted by inflation began to develop in every possible way, and our currency's dependence on the currency of the US, England and the other capitalist governments was conclusively eliminated. The people's yuan acquired exceptional stability.

An independent, unified and stable monetary system was created in the People's Republic of China and was strengthening. On the base of the development of the state and cooperative sectors of the economy, the conditions for the planning of the circulation of money were developing rapidly.

Chapter 3

The Circulation of Money During the Initial Period of the First Five-Year Plan for the Development of the National Economy

The Development of the National Economy During the Initial Period of the First Five-Year Plan

1953 was the first year of the First Five-Year Plan for the development of the national economy of the People's Republic of China. Our government, having successfully completed reconstructing the national economy, was entering the period of planned economic construction. The great changes in the national economy naturally could not but have a decisive effect on the circulation of money.

During the period of the First Five-Year Plan the policy was to "concentrate the main efforts on the development of heavy industry, and on the establishment of bases for industrializing the country and for modern defense; to appropriately develop transportation, light industry, agriculture and trade; to train the appropriate numbers of construction workers; to gradually convert agriculture and cottage industry to a cooperative basis; to continue the work of transforming capitalist industry and trade; to ensure a steady growth in the share of the socialist sector in the national economy; to use individual agriculture, cottage industry and capitalist industry and trade correctly at the same time; and to ensure a gradual increase in the material and cultural standard of living of the people on the basis of the development of production." (Chou En-lai, Report on the work of the government at the First Session of the First Convocation of the All-China Congress of People's Representatives, Gospolitizdat, 1954, p 4)

Following the policy of concentrating the chief efforts on heavy industry and creating bases for the industrialization of the country and the strengthening of state defense, the People's government invested huge amounts in capital construction, mainly the construction of heavy industry projects.

Budget appropriations for economic construction during two years (1953-1954) amounted to 20 billion yuan, exceeding by more than 56 percent the amount of capital investments during the three years of the reconstruction period, which had amounted to 12.8 billion yuan. The volume of capital investments utilized in industry in 1953 was 96 percent greater than in 1952. Thus, the rate of growth of state investments in capital construction was very high.

The annual increase in the total value of industrial output during the reconstruction period amounted to an average 36.9 percent. With the conversion to planned economic construction, the rate of

development of industry fell somewhat, but continued at a comparatively high level. The total value of industrial output in 1953 was 33 percent greater than in 1952.

The natural disasters occurring in our country in 1953 and the serious flooding in the Yang-tse and Hwang-ho river basins in 1954 served as a serious cause for the nonfulfillment of the agricultural production plans. Nevertheless, the grain harvest increased every year.

During the first two years of extensive economic construction, agricultural production as a whole increased but its rate of growth fell somewhat in comparison with the reconstruction period. In 1953 and 1954 the annual increase in the grain harvest amounted to about 2 percent in comparison with 1952, and cotton output fell by several millions of tan. The natural disasters were objective causes affecting plan fulfillment. But, at the same time, another negative factor was fully revealed -- the development of productive forces in agriculture was being held back seriously by the presence of the individual farms.

In this connection the task of gradually transforming agriculture, lagging in comparison with industry, by means of the extensive development of a campaign in the countryside to increase production on the base of mutual assistance in labor and cooperation, appeared to its fullest extent.

In the winter of 1953 and the spring of 1954 a campaign developed throughout the country to implement the party's general line during the transition period; centralized purchases and sale of grain were being realized, and the movement for mutual assistance and cooperation in agriculture was developing widely. Thanks to these measures the peasants' socialist consciousness improved, and the movement for the socialist transformation of agriculture developed rapidly. By the end of 1954 over 60 percent of all peasant farms in the country were consolidated in mutual assistance brigades and cooperatives; by that time there were over 400,000 agricultural producers cooperatives. There were over 160 million members of supply and sales cooperatives. There were over 100,000 credit cooperatives; more than 80 percent of the countryside already had credit cooperatives. The tendency toward chaotic capitalist development in the rural economy was limited sharply, and a strong blow was delivered against exploitation by money lenders and speculative trade.

The huge state investments in heavy industry required colossal sums and a long assimilation period. Meanwhile, state revenues were increasing relatively slowly. At the same time, since the production of producer goods was increasing faster, the greater part of industrial output could not go directly toward supplying the population with consumer goods. The number of workers increased, wages increased, the total wage fund increased steadily, and state purchases of agricultural products and products of subsidiary industry expanded. All this

led to the fact that the population's purchasing power grew faster than the production of consumer goods.

Based on the development of agricultural and industrial output, commodity turnover expanded every day. The total volume of retail sales in 1953 amounted to 32.5 billion yuan, 20 percent higher than the 1952 level, and in 1954 the level was 10 percent greater than in 1953. State and cooperative trade accounted for over 50 percent of the total volume of retail sales at the end of 1954 and for over 80 percent of wholesale sales. This growth became especially noticeable in the winter of 1953 when the state began to implement planned purchases of grain, oil products, cotton cloth and cotton, also supplying the population with these goods in a planned manner. In this connection, joint state-private enterprises began to grow, state orders to private enterprises for the processing of raw materials and semimanufactures and the manufacture of finished products began to increase, and agreements for the centralized purchase and sale of their products began to be concluded.

The value of industrial goods purchased by the state from private industry through the system of orders for the processing of raw material and for finished products, and also of centralized purchases and guaranteed sale, comprised, in eight of the country's largest cities, over 80 percent of the value of output by private industry.

The large private wholesale stores, concerned with the sale of grain, fat and cotton cloth, were converted into intermediary or commission stores trading according to instructions from the state or cooperative trade organs. Thus, the guiding role of state and cooperative trade was considerably strengthened.

With the development of production, the expansion of commodity turnover, and the increase in the share of the socialist sector, the volume and assortment of products distributed by the state in a planned way increased. The increase in the share of state and cooperative trade, the rapid conversion of private industry and trade along the line of state capitalism, the planned purchase and sale of certain basic consumer goods, all this fundamentally changed the situation in state trade and increased its role as socialist trade. Organized, planned commodity turnover in the most important production materials and consumer goods increased notably.

Commodity turnover between city and country conducted through state and cooperative trade channels held a predominant place. Private capitalist trade relations between port cities were considerably curtailed. After the conversion of many private stores into intermediary and commission stores, their commodity turnover, to a great degree, began to be controlled and regulated by the state planning organs.

The expansion of the organized market created exceptionally favorable conditions for the development of planned, organized circulation of money.

The situation in state finances in 1953 was favorable: not only had the budget been balanced, but there was even some excess of revenues over expenditures, making it possible to increase credit resources to a certain degree.

Market prices were stabilized. During 1953 there was a 0.6 percent increase in prices. Prices on certain goods (grain and certain secondary food products) increased by 9 percent, but prices on yarn, cloth, various manufactured goods, and products of local and cottage industry, fell. The increase in prices on agricultural products and the reduction in prices on industrial products caused price discrepancies to be reduced; this promoted the development of production, the strengthening of the union between workers and peasants, and the normalization of the circulation of money.

During the period under consideration, along with a steady expansion of socialist construction concentrating on heavy industry, the contradiction between the socialist and capitalist economies and between the socialist, cooperative sector of the economy and the small peasant individual farms became continually more evident.

The economic law of conformity between production relations and the nature of productive forces required the rapid implementation of socialist transformation in agriculture, cottage industry and capitalist industry and trade. The changes in production relations were to definitively influence the circulation of money, which, in its turn, was supposed to actively promote the socialist transformation in the country.

II

The Influence of the Planned Purchase and Sale of Basic Agricultural Products on the Circulation of Money in the Countryside

With the completion of the agrarian reform, the small peasant farms, having broken the fetters of feudal production relations, started to expand agricultural production. The state, guiding the upsurge in agriculture, assisted it in various ways. Already by 1952 the grain harvest was 45 percent greater than in 1949, and the cotton harvest was 191 percent greater.

During these years our country's population increased by approximately 6 percent, and grain production increased by 45 percent; i.e., there was an average per capita growth of more than one third. The amount of commodity grain, concentrated in the hands of the state, increased by 20 percent during the agricultural year (from July 1951 to June 1952) in comparison with the same period of the preceding year; moreover, the increase was not only absolute but also relative, since its share of the gross grain harvest increased by 1.7 percent (from 18.7 percent to 20.4 percent). Thanks to the growth in grain production, the share of commodity grain increased. The grain situation was comparatively favorable.

During the first months of 1953 an unfavorable situation developed in respect to fulfillment of the state grain purchase and sale plans. Although there was a bumper harvest in 1952, amounting to 327 billion chin (9 percent higher than the record year before the liberation and 21 percent higher than in 1951), the amount of commodity grain, concentrated in the hands of the state (including state deliveries and purchases on the market), increased by only 7.4 percent during the 1952-1953 agricultural year while sales of grain on the domestic market increased by 85 percent. The share of grain concentrated in the hands of the state fell from 20.4 to 18.1 percent of total grain production, or by 2.3 percent. The growth in sales of grain exceeded the growth in grain purchases by more than 10 times.

The lag in the production of grain behind the requirements of developing industry became especially evident with the beginning of the implementation of the Five-Year Plan. Grain production in 1954 was approximately 3 percent greater than in 1952, while industrial output had increased by 53.7 percent.

In connection with the fact that the output of agricultural products (mainly food crops) lagged behind the requirements for the development of industry and did not fully satisfy the population's demand, the following difficulties arose in the field of solving the grain problem: tension in the grain supply, caused by the demand for commodity grain being greater than deliveries; difficulties in the fodder supply, which affected the development of livestock raising; the impossibility of increasing the area sown to industrial crops. This could not but have a negative effect on the supply of raw materials for industry, and subsequently on the development of light industry.

Under the conditions of existence of a private market, traders and kulaks made use of the gap between grain production and demand to obtain speculative profits. The speculative elements bought up grain, accumulating reserves. Many of the private entrepreneurs who were not formerly engaged in grain transactions, also began to accumulate huge amounts of grain products.

Grain prices rose. In the spring of 1953 grain prices in the markets of such important grain regions as Hunan, Kiangsi, Shantung, Hopeh, Anhwei and Shensi provinces were 30 or even 50 percent higher than state trade company prices.

The peasants, especially prosperous, refrained from selling the grain. Until the beginning of centralized purchase and sale, in some regions (for example, Chi-wan County, Hopeh Province) the amount of commodity grain stored up by the peasants comprised 25 percent of the harvest, and in Huang-p'ei village over 40 percent of the peasants used their surplus money to buy up and store grain.

The chief cause for the lag in the production of grain behind the requirements for the development of industry was the system of dispersed, backward, small-scale peasant farms.

The basic procedure for solving the grain problem was to gradually create cooperatives in agriculture, and the fundamental method for overcoming the chaotic and speculative activity on the private market caused by small-scale commodity output was the method of planned purchases and sales of grain by the state.

Beginning with the winter of 1953 planned purchases and the planned supplying of grain and other important agricultural products (cotton, oil seeds, etc.) struck a crushing blow against the speculators, the private traders and kulaks. The capitalist elements in city and country were squeezed from the grain market on the whole. At the same time, a peasant grain market without private trader was established in the country under state guidance, with the task of distributing grain in the countryside. The private retail stores in the cities were permitted, under state control, to sell grain at the instructions of the state food company. The seasonal and regional differences in grain prices were eliminated or reduced, and on the whole exploitation of the grain producers and consumers was eliminated. Thus a planned, organized grain market grew up, socialist in character. This was a great victory for our people in the field of solving the grain problem.

The share of commodity grain in total grain production increased from 18 percent in the 1952-1953 agricultural year to 24.7 percent in 1953-1954; grain purchases during this period increased by 39 percent, and sales by 33 percent, i.e., the growth in purchases exceeded the growth in sales. There was also some increase in state reserves of grain.

After the adoption of the policy of centralized purchase and sale of agricultural products, trade with tens of millions of peasants began to be implemented mainly through the socialist trade organizations. The state began to purchase agricultural products in a planned way through the socialist trade network. Socialist trade was given an important task -- the implementation of purchases of agricultural products and the supplying of peasants with the necessary production materials and consumer goods. The state's new trade policy and the extensive development of credit cooperatives played an important role in strengthening the circulation of money in the countryside. The most important changes in the sphere of the circulation of money in the countryside were the following.

First, state and cooperative trade became the main channel through which money flowed into circulation in the countryside and was withdrawn from circulation. This resulted in the rapid growth of turnover of supply and sales cooperatives and in a limitation in the sphere of activity of private persons. The basic channel for putting money into circulation was purchases of agricultural products by the state, and the basic channels for withdrawing money from circulation were supplying peasants with production materials and consumer goods through the local supply and sales cooperatives.

Below are data on the activity of the supply and sales cooperatives and of private trade before and after the conversion to planned purchases of grain in Chang-ching village, one of the country's large grain regions:

	1st, 2nd and 3rd Quarters of 1953		4th Quarter of 1953		Jan-Feb 1954	
	(Yuan)	(%)	(Yuan)	(%)	(Yuan)	(%)
Total grain purchases	16,261	100.0	55,301	100.0	4,523	100.0
Supply and sales cooperatives	13,357	82.3	54,399	98.4	4,523	100.0
Private trade	2,904	17.7	902	1.6	--	--
Total sales of goods	19,121	100.0	21,021	100.0	14,978	100.0
Supply and sales cooperatives	14,876	77.9	19,476	93.9	12,354	82.5
Private trade	4,245	22.1	1,275	6.1	1,624	17.5

Thus, with the conversion to a policy of centralized, planned purchases of grain, the socialist trade network began to buy agricultural products directly from the peasants and to supply them with everything they needed. As a result, the share of socialist trade rose considerably both in purchases of agricultural products and in the supplying of goods. Although there are differences in the absolute figures for different regions, the general tendency was the same. According to an investigation of 38 peasant farms in Hsü village, Shansi Province (a cotton region), of the peasants' total cash revenues during the year, 53 percent was received from supply and sales cooperatives, 18.4 percent was received from the bank, credit cooperatives and other state establishments, 23.9 percent was received from peasants in the form of mutual settlements, and only 4.7 percent was received from private traders.

Second, there were changes in the nature of peasants' revenues and expenditures. Small purchases of manufactured goods by peasants immediately after small sales were replaced by a greater concentration of revenues and a dispersal of expenditures. This meant a further development of the money economy in the countryside.

The following figures show the proportion of peasants' expenditures and expenditures which occurred in the different quarters of 1953 in Chang-ching and Hsü villages:

	<u>Revenues</u>	<u>Expenditures</u>
Chang-ching Village total	100.0	100.0
First quarter	9.0	19.4
Second quarter	5.8	23.1
Third quarter	19.0	27.3
Fourth quarter	66.2	30.4
Hsü Village total	100.0	100.0
First quarter	5.2	16.2
Second quarter	8.1	34.2
Third quarter	11.8	13.5
Fourth quarter	74.9	36.1

It is clear from these figures that the fourth quarter is the quarter of maximum money income for the peasants; this gives rise to a seasonal issuance of money into circulation. The first half of the year is the period of least revenues and greatest expenditures, and, consequently, the period of maximum withdrawal of money from rural turnover. This is also indicated by the fact that sales of products by the supply and sales cooperative in Chang-ching village are considerably greater than its purchases during the first three quarters of 1953, and the reverse is true in the fourth quarter.

Peasants' money revenues and expenditures began to pass through the local supply and sales cooperatives rather than through private trade channels.

Third, the occurrence of a state of affairs under which money is withdrawn from the rural turnover during the first half of the year and flows into it during the second half. In this connection seasonality in the circulation of money began to appear even more clearly.

In the winter of 1953, before the introduction of planned purchases, the amount of grain purchased by the government was relatively small, the purchases were scattered in time, and the velocity of circulation of money was comparatively high. For this reason the demand for cash was inconsiderable. After the introduction of the system of centralized purchases the situation changed: the amount of grain purchased increased and the purchases became more concentrated. Thus, during the two peak months for purchasing grain (December 1953 and January 1954) the amount of grain purchased was twice the amount for

the same months of the preceding year. Moreover, these two months accounted for more than 40 percent of the grain purchased during the 1953-1954 agricultural year, as opposed to 22 percent in the previous year. Such concentrated purchases of grain cause a large amount of money to flow into circulation with a subsequent reverse flow.

Fourth, the slowing in the velocity of circulation of money, the retention of money by the peasants, and the increase in the role of money as a medium of circulation and payments.

At the beginning of the implementation of centralized purchases of grain there was already a tendency toward a slowing in the circulation of money. Taking the average number of days required for money to return to the bank in the fourth quarter of 1952 as 100, the amount was 107.7 in the first quarter of 1953, 93.7 in the second quarter, 96 in the third quarter, 101.5 in the fourth quarter, 124.5 in the first quarter of 1954, and 107 in the second quarter of 1954.

In November 1953, when the measures to centralize purchases had not yet been developed, the velocity at which cash returned to the bank was approximately 3 percent greater than during the fourth quarter of the preceding year. In December 1953, when centralized purchases began, the velocity of money turnover began to decrease and in the first quarter of 1954 it slowed by more than 24 percent in comparison with the same period of 1952, and by 19 percent in comparison with the first quarter of 1953. During the second quarter of 1954, although this indicator was higher than during the first quarter of 1954, in comparison with the same period of the preceding year it was 15 percent less.

An analysis of data for many regions shows that the situation in respect to the velocity of circulation of money was not the same in cities and in the country. In the majority of the cities the velocity of the circulation of money tended to increase gradually, but in the country it tended to decrease. But since agriculture has a large place in our country's national economy, the velocity of circulation of money, for the country as a whole, tended to decrease. The peasants temporarily retained the money obtained from the concentrated sales before using it for purchases of necessary production materials and consumer goods, and for other payments. Consequently, along with the function of payment, money began to also fulfill the function of a medium for saving.

Under the new conditions arising in the sphere of the circulation of money in the countryside, the state implemented a number of measures directed toward a more rational, planned regulation of the circulation of money. The supplying with goods improved in every way, and People's Bank credit operations in the countryside developed. The system of advance contracts for the purchase of agricultural products should be especially noted. During the spring and summer field work the government concluded contracts for the purchase of grain with individual peasants and with agricultural producers cooperatives, giving them part of the money as an advance.

During the grain purchase period, encouragement of bank deposits by peasants from the funds they received from grain sales was organized. Subsequently these deposits were paid out to the peasants. At the height of the spring field work agricultural credits were issued and, like other credits, these were subject to repayment after the harvest. All this was intended to weaken the effect of seasonal factors on the circulation of money in the countryside to a certain extent and, at the same time, to speed up the circulation of money with the purpose of saving cash and concentrating its turnover through the People's Bank even more.

Thus, during the spring field work period of 1954 the state considerably increased agricultural credits, organized the payment of advances amounting to several hundreds of millions of yuan to mutual labor assistance brigades and poor peasants, and paid out several hundreds of millions of yuan deposited by the peasants under advantageous conditions after the sale of their grain. All these payments, amounting to over one billion yuan, greatly promoted the satisfaction of agricultural requirements for funds. In the winter of 1954, when state purchases of agricultural products were conducted on a larger scale, the paying off of agricultural credits, the encouragement of deposits in the countryside, and the especially extensive development of credit cooperation in the countryside were of great importance.

Members' capital in credit cooperatives in 1954 amounted to 100 million yuan throughout the country, and deposits made amounted to 500 million yuan. The payment of advances and agricultural credits, the development of savings deposits in the countryside, and the expansion of operations by credit cooperatives everywhere struck an important blow against money lending and promoted the effective accumulation of financial resources for ensuring the spring field work of the following year. At the same time, it became possible to organize the reverse flow of money out of circulation during the very period when there was a considerable single issuance (the peak season); this had a favorable affect on market stabilization.

In some regions of the country at certain periods the plans for the purchase of agricultural products and the sale of industrial goods were not fulfilled; this caused nonfulfillment of the plans for receipts and payments of cash.

One of the most important causes for the nonfulfillment of plans for purchases of agricultural products was an insufficient supply of industrial goods for the peasants. This caused nonfulfillment of the goals for reverse flow of money out of circulation. Due to the interruption in the supply of certain types of goods on the part of state trade, individual regions did not fulfill the sales plans and an unfavorable situation appeared in the sphere of the circulation of money. To overcome this situation, the government implemented measures to increase the supply of goods to the rural market, to expand the state and cooperative trade network, to utilize the small-scale traders and hawkers in the villages, etc.

During the period under consideration a socialist transformation in the field of trade and credit in the countryside was achieved, by means of the planned purchase and planned sale of the most important agricultural products, the development of People's Bank operations in the countryside, and the expansion of credit cooperatives. However, individual peasant farms still played a decisive role in agricultural production. Thus, in the spring of 1955 only about 16 percent of the total number of peasant farms belonged to agricultural producers co-operatives. This slowed down the growth of agricultural production and made it difficult to solve the problem of increasing agricultural surpluses for marketing, and limited the possibilities of regulating credit in the countryside.

A fundamental solution of these problems could only be reached by increasing the use of cooperatives in agriculture.

III

The Influence of the Upsurge in Agricultural Cooperatives on the Circulation of Money in the Countryside

By June 1956, as the result of the upsurge of a campaign for the formation of agricultural cooperatives, approximately one million agricultural producers cooperatives of a socialist or semisocialist type, comprising over 100 million peasant farms, had been established in the People's Republic of China. The collective farm, rather than the individual peasant farm, began to play the basic role in agricultural production.

This great transformation in production relations, which gave a great stimulus to the development of productive forces, could not but cause a number of changes in the field of commodity turnover and the circulation of money in the countryside. Below we examine the effect of the formation of cooperatives on the circulation of money in the countryside during the spring field work period and during the seasonal market peak period.

The Influence of the Formation of Cooperatives on the Circulation of Money During the Spring Field Work Period

During the spring field work in the first half of 1956 a campaign for the formation of agricultural cooperatives was developing everywhere. Many new problems arose in the circulation of money in this period. Part were caused by the change in production relations resulting from the formation of cooperatives and were prolonged in nature. Others were due to some temporary causes arising during the initial period of the formation of cooperatives.

Below are some generalized data for many regions of the country on money receipts and payments for the socialist sector in the countryside during the first half of 1956, compared with the same period of 1955.

	First Half 1955 (% of total)	First Half 1956 (% of total)	First Half 1956 (First Half 1955 = 100)
Receipts of money in the countryside			
Purchases of agricultural products and products of subsidiary industry	65.0	45.8	98
Payment of wages	20.7	13.5	125
Credits to agriculture	14.3	35.7	346
Issue of credits	--	--	448
Paying out deposits	--	--	109
Advances for the purchase of agricultural products	--	--	560
Total	100.0	100.0	140
Payments of money in the countryside			
Sales of grain by the state	29.7	23.6	88
Supplying consumer goods (except grain)	57.8	60.5	117
Supplying production materials	12.5	15.9	143
Inorganic fertilizers	--	--	168
New agricultural equipment	--	--	613
Total	100.0	100.0	112

(The data do not include certain relatively small payments and receipts, and also a small part of the turnover between the socialist

sector and the peasants through other channels. Thus, the figures given do not describe the situation completely; however, they include all the important channels through which the state received and paid out money in mutual relations with the peasants.)

The data in the table show that the flow of money out of circulation during the first half of 1956 resulting from sales of grain by the state was 88 percent of that during the same period of 1955; i.e., it decreased by 12 percent. This was caused by the policy implemented by the state after the rich harvest of 1955 in respect to production, purchases, and sales. Although the production of grain increased, the amount of grain purchased by the state from the peasants did not change. Since the balance of grain in the countryside increased, the state reduced deliveries of grain to the countryside. For this reason receipts fell, demonstrating the favorable economic development.

The supplying of the countryside through socialist trade shows a great growth (with the exception of supplying with grain). The total volume of sales (excluding grain) was 22 percent greater in the first half of 1956 than in the first half of 1955; moreover, sales of production materials increased by 43 percent and sales of consumer goods increased by 17 percent. Among the production materials, sales of inorganic fertilizers increased by 68 percent, and those of new agricultural equipment, by more than six times.

In respect to the flow of money into circulation in the countryside, during the first half of 1956 purchases of agricultural products fell by only 2 percent in comparison with the same period of 1955. Wage payments during the first half of 1956 increased by approximately 25 percent, which was caused mainly by an increase in state investments in agriculture, forestry and irrigation, and also by an increase in the wage rates. A basic factor in the flow of money into circulation was the great increase in credits. Thus, the inflow of money through credits during the first half of 1956 was approximately 3.5 times that during the first half of 1955. This shows the great assistance which the state gave to agricultural producers cooperatives during the initial stage of their formation.

Lenin, in the article, "On cooperatives," said: "Each social structure arises only with the financial support of a certain class... at present the social structure which we must support more than usual is the cooperative structure." At another point in this article he notes: "It is necessary to treat cooperation politically so that there will not only be a certain preference for cooperation in general and always, but that this preference will be a purely property one (level of bank interest, etc.)... a number of economic, financial and banking privileges for cooperation; this must comprise the support by our socialist state of the new principle of organization." (V. I. Lenin, Works, Vol. 33, pp 429 and 430)

With the establishment of agricultural producer cooperatives in our country, to achieve expanded reproduction the first task was to

concentrate and effectively utilize the basic means of production dispersed among the individual members of the cooperatives, and to seek out loan funds for expanding production in every way.

During the process of concentrating the basic means of production of the cooperative members and transforming them from private property into collective property, it would have been impossible to take all of the means of production belonging to the former middle and poor peasants, without exception, without regard to amount, and without compensation and transform them from private to collective property. This would have been a reason for the comparatively well-to-do peasants to think that "confiscation" was occurring. It would also have been incorrect to completely buy up these means of production, since the agricultural producers cooperatives would not have had enough funds for this. If this question had not been solved appropriately, it would have been difficult to successfully convert private ownership of the means of production in the countryside into collective ownership. This would have unavoidably had a negative effect on the unity of the cooperative members -- the middle and poor peasants -- and would have undermined the principle of voluntariness and mutual advantages.

A just and wise method, approved by the peasant masses (both middle and poor peasants), was the method of distributing income according to the number of persons working and depending on shares in the form of land sections and certain basic means of production. Shares were used by the producers cooperatives during the first stage of organization of the production process.

The value of the means of production transferred to the cooperatives exceeded (mainly for relatively well-to-do middle peasants) the total of the shares which the peasants had to pay in when entering the cooperative. This excess was reimbursed by the cooperative at one time or in parts. Small peasants, who were not able to pay in the share or part of it, received state assistance in the form of credit. The interest on such credit was relatively low -- 4 percent a year, and the period for paying it back was rather long -- 3 to 5 years. Moreover, no guarantee or security was required. This type of credit was a clear evidence of the concern of the state for the poor peasants and of its assistance in every way to the campaign for the formation of cooperatives.

By the end of July 1956 the volume of credits granted to poor peasants for paying shares to cooperatives exceeded 700 million yuan. The role of such credits was not only to give great assistance in the conversion of single farms into cooperatives, but also to increase the production funds of the newly formed agricultural cooperatives. These credits promoted the development of social activity by the poor peasants, the strengthening of unity between the middle and poor peasants, the strengthening of the guiding role of the poor peasants and the lower levels of middle peasants, and the conversion of these peasants into the basic force in the campaign for the formation of cooperatives.

At the same time the People's Bank gave the agricultural producer cooperatives every kind of assistance to expand the production base. The volume of credits issued by the People's Bank during the spring field work period in 1956 exceeded the total volume of agricultural credits during several preceding years, as shown by the following data.

The Growth of People's Bank Agricultural Credits
During the Spring Field Work Period
(in million yuan)

<u>Years</u>	<u>Balance of Agricultural Credits at the End of June of the Given Year</u>	<u>Increase in the Balance of Credits During the First Half Year (the Period of Spring Field Work) Over the End of the Preceding Year</u>
1951	165	85
1952	463	257
1953	833	395
1954	932	363
1955	1,168	409
1956	2,840	1,832

Thus, People's Bank credits to agriculture during the spring field work period in the first half of 1956 increased over the end of 1955 by more than 1.8 billion yuan, and, in comparison with the growth during the corresponding period of the preceding year, 4.5 times. In addition, to assist the peasants in solving production and living difficulties, the state gave them advances amounting to over 800 million yuan during this period; this comprised 10-20 percent of the value of the agricultural product which the peasants would sell after the harvest.

In essence the advances were a preferential, no-interest, short-term credit. In this same year the peasants obtained their deposits in the People's Bank and credit cooperatives amounting to 350 million yuan. Consequently, during the first half of 1956 the funds flowing through credit channels into rural turnover reached 3 billion yuan, i.e., three times more than during the same period of 1955.

Along with the huge receipts of money through credit channels, sales of products by the socialist trade network, mainly through the

rural supply and sales cooperatives, grew rapidly. The sale of producer goods expanded especially rapidly.

Not only did state credit assistance satisfy the requirements of the agricultural producers cooperatives for funds to expand production; it also played a great role in supporting the poor peasants during the period between the spring plowing and the new harvest. This assistance, stimulating a growth in agricultural production, thereby promoted the strengthening and development of the campaign for the formation of agricultural cooperatives.

It is necessary to note further that, as the result of the formation of agricultural cooperatives the sale of producer goods began to be made mainly by the supply and sales cooperatives to the agricultural producer cooperatives. The economic organization of both of these is of a socialist type; their sphere of activity is steadily expanding and the volume of turnover is rising. Their operations are of a relatively concentrated nature. All this was conducive to the situation that settlements in this trade (mainly for producer goods) began to be handled without cash, by clearing transfers through the People's Bank. This had a favorable effect on savings of labor and financial resources, and also of cash, and on speeding up commodity turnover. Clearing settlements through the People's Bank are expanding every day.

Thanks to the development of the monetary system in the countryside, requirements for money as a medium of circulation and a payments medium grew constantly. The peasants began more and more to prefer accumulating money to accumulating goods. At the same time the peasants' money income was unequal in time. The class composition of the holders of the money also fluctuated extremely.

During the first half of 1956, during the period of intensive spring field work, a great amount of money flowed into circulation through the granting of state credits. But at the same time, a number of regions experienced an acute shortage of money, and there was a critical situation in respect to providing the means of agricultural production. Many peasants began to experience difficulties. This was a serious problem, which it was necessary to solve in the field of agricultural production and the circulation of money in the countryside.

Why was there a shortage of funds under the conditions when considerable monetary resources were already concentrated among the peasants and the flow of money into circulation was increasing through the granting of credits? The basic causes are as follows.

First, the requirements for a rapid and considerable increase in investment of funds in agricultural production were greater than actual possibilities. During the initial period of the formation of cooperatives the activity of the peasant masses to increase production was huge. But neither the managers nor the peasants had sufficient experience in cooperative work. In many producer cooperatives the

plans for expanding production were too high, and huge new investments were required on the basis of these plans. Many agricultural producer cooperatives compiled the plans for the increase in production for the given year on the base of the rich harvest of 1955. For this reason investments were to be increased by 30-40 percent or even doubled. The high plans for the growth in output required a considerable expansion in production equipment, huge investments in capital construction, and high production costs.

The difficulties in finding funds were aggravated by the fact that part of the managers of the cooperatives were alienated from the masses, squandered funds, and conducted irrational and untimely construction on an excessively wide scale.

Second, the peasants' income from subsidiary industry fell. In many regions where agricultural producers cooperatives were established only recently not enough attention was yet being given to the rounded planning of production, especially to subsidiary industries. As a result, subsidiary industries were curtailed and the peasants' income from them was reduced.

In a great number of regions the peasants' income from subsidiary industries comprises more than 30 percent of their total income, and in some places, over 50 percent. Frequently this income is the basic source of cash receipts for the peasants. Moreover, according to data for five villages in Shansi Province, peasants' income from subsidiary industry before the formation of the producer cooperatives amounted each year in the spring to about 9,000 yuan, but in the spring of 1956 it amounted to only 2,895 yuan, i.e., less than one third of 1955 income. Also, the basic part of the income was given to the cooperatives, and the members had very little cash on hand.

Peasants' income from subsidiary industry in An-tung County during the period from the beginning of the third quarter of 1955 to the end of the first quarter of 1956 comprised 21.6 percent of all the peasants' income as compared with 32.4 percent during the same period of the preceding year; i.e., it fell by approximately one third. In some agricultural producer cooperatives control over the labor of the members of the cooperative was too severe and inflexible, which complicated matters for them in allotting time for engaging in subsidiary industry.

In certain cooperatives the distribution of income for labor-days was excessively high; as a result the incentive for developing subsidiary industry weakened. The reduction of production in subsidiary industry was a widespread phenomenon and was a serious factor in reducing peasant income and causing money difficulties for them. This was a serious lesson for us.

Third, money was distributed extremely unequally throughout the countryside. Although the total amount of money in the peasants' hands was considerable, it was distributed quite unequally. A small number of comparatively well-to-do peasants had money surpluses which they

preferred not to spend. At the same time the majority of poor peasants were acutely in need of monetary assistance.

If we trace the distribution of money in the countryside we note that the greatest part was concentrated in the hands of the relatively well-to-do peasants in such economically rich regions as regions producing industrial crops, regions of local industry producing products in great demand, and heavy grain producing regions. For example, in Te-hsien County, Shantung Province, in 1955, as the result of state purchases of agricultural products, the inflow of money increased by 7,600,000 yuan of which 6,470,000 yuan or more than 84 percent settled in the cotton region and only 1,190,000 yuan or a little more than 15 percent settled in the grain region. The population in the cotton regions comprises only 10 percent of the total population. This means that over 80 percent of the state expenditures for agricultural purchases in Te-hsien County in 1955 went into circulation in regions in which the population comprised only 10 percent of the total.

According to an investigation of Hsiao-sheng village, Sun-kuan District (a cotton region in Te-hsien County), there were 7 households with balances of money of over 200 yuan, 6 households with balances from 100 to 200 yuan, 10 households with less than 100 yuan, and only 3 households with no balance. This shows that in the comparatively rich regions producing industrial crops there are many peasants with money balances at their disposal.

In Ta-he village, Fu-hsien County, Liaoning Province, the peasant families which were investigated at the end of January 1956 can be divided into three categories: a. rich peasant households, which accounted for 14 percent of the village's population. Here each household has an average 1,026 yuan and 73.4 percent of the money resources of the village were concentrated here. b. middle peasants, who comprised 23.7 percent of the population; each household had an average 158 yuan, and 19.9 percent of the village's money was concentrated here. c. poor peasants, who comprised 62 percent of the population; here each household had an average of only 23 yuan, i.e., 7.3 percent of the village's money.

All these figures demonstrate the extreme inequality of the distribution of money among the different layers of peasants. The comparatively rich peasants, having relatively large money balances, were convinced of the fact that the people's yuan had already remained stable for six years, and they began to save cash eagerly. At the same time they were not convinced that the newly organized agricultural producer cooperatives could quickly and steadily expand production and increase income on this base. They also doubted the possibility of getting back funds paid into the producer cooperatives. The facts, however, dispersed their doubts. But they did not wish everyone to know that they had large balances of money. In this connection they refrained completely from depositing them in the bank or

in a credit cooperative. Many peasants, after entering a cooperative, considered it necessary to have some reserve money in any case, "for a black day." As a result, the peasants who had quite a lot of money refrained from using it. At the same time those peasants whose income from subsidiary industry had decreased and who could only receive money for labor-days in the fall after the harvest urgently needed monetary assistance.

Because of all this, in certain regions, to attract more peasant funds for investment in agricultural production and to expand the operations of credit cooperatives, etc., compulsory measures were used illegally to a greater or lesser degree. This increased the peasants' fear that their money surpluses would be discovered, and many hid the money. Such a situation made it extremely difficult to mobilize the funds of the well-to-do peasants and aggravated the monetary difficulties.

It should be especially noted that the formation of cooperatives caused requirements for an increase in payment funds and circulation funds for peasant acquisition of producer goods and consumer goods. Formerly the peasants mainly supplied themselves with such necessary goods as grain, vegetables, fuel, fertilizer and other producer and consumer goods, without using money settlements and trade.

After the formation of the cooperatives the situation changed, especially during the first period when experience was still insufficient and collectivization took place to an extreme degree. Grain, fuel and vegetables began to be distributed by the cooperative or was given in payment of some debt. This required settlements and records in money terms. The requirements of money as a payment medium and a medium for circulation thereby increased.

In 1956 various agricultural cooperatives used a kind of substitute for money rather extensively -- coupons for vegetables, wood, etc., worth a few fen or tsao (a fen is 1/100 of a yuan; a tsao is 1/10 of a yuan) or even five or more yuan. Later on these coupons began to be used by some managers who did not understand the political situation properly as a source of additional funds.

This payments method was soon eliminated as erroneous thanks to the introduction of cash into circulation. Thus, the cooperatives gradually undermined the barter system in the countryside. As money relations developed requirements for money in its function as a medium of circulation, payments and savings increased.

Many consumer goods which formerly the peasants produced and consumed themselves also began to be evaluated in money, to be purchased and sold. This required a much greater quantity of a payment medium and a circulation medium than was required before the formation of the cooperatives.

The function of money as a medium for savings developed considerably.

The Central Committee of the Chinese Communist Party and the State Council, with the purpose of further expanding the movement for increasing agricultural production through the formation of cooperatives, again issued instructions on the zealous and economical management of the cooperatives. The appropriate party and administrative organs at all levels were given the duty of working out specific plans for a sharp upsurge in agricultural production, of rationally and economically using investments in agriculture, of assisting the peasant masses in every way, and of promoting the reconstruction and development of subsidiary industries to increase the peasants' money incomes. At the same time the payment of advances and the granting of credits to peasants (especially poor peasants) and cooperatives was increased by more than one billion yuan. This state aid made it possible for the peasants to overcome the difficulties of the first year of formation of the cooperatives.

During this period the party and government implemented the policy of patient waiting and convincing the well-to-do peasants rather than hurrying to mobilize their money surpluses.

At the same time the work of socialist trade in the field of supplying the countryside with goods improved in every way; a steady expansion of commodity turnover and the strengthening of the circulation of money in the countryside was achieved.

The Influence of the Formation of Cooperatives on the Circulation of Money During the Period of the Seasonal Market Peak

Because of insufficient data we are now not able to give a detailed analysis of the market condition in the country during the 1956 peak season. However, on the basis of the situation in those cooperatives which, in 1956, were already well along the path of cooperation, it is possible to describe the important peculiarities of the effect of the formation of agricultural cooperatives on the circulation of money in the countryside during the period of seasonal market peak.

The effect of the formation of producer cooperatives on the market condition in respect to agricultural products consisted mainly of an increase in the marketable surplus of agricultural products. Large amounts of agricultural products began to enter the market, and the number of intermediary trading links decreased. This favored an expansion in production, a speeding up of commodity turnover, and a reduction in handling costs; socialist accumulation increased and the peasants' standard of living rose.

The basic cause for the increase in marketable surpluses of agricultural products was that the formation of agricultural cooperatives promoted the development of production and caused an increase in the total volume of agricultural output.

The marketable surplus of cotton grown by single private peasants did not exceed 80 percent on the average for several years while the marketable surplus of cotton in agricultural cooperatives, for example, in I-hsien County, was over 93 percent. The marketable surplus of grain produced by single private peasants was 18-26 percent on the average for several years, while the marketable surplus of grain in the Wu-chia-mu-ch'iao Producer Cooperative in Chu-chi County, Chekiang Province, reached 40 percent.

The tendency to an increase in commodity output on the basis of a growth in production and an increase in the marketable surplus is typical for all agricultural producer cooperatives, although the rate of growth in the marketable surplus is far from the same in different cooperatives and in different regions.

In regions where cooperatives were formed, agricultural products entered the market in considerable amounts and in a concentrated manner. At the same time the sale of agricultural products by single private peasants was inconsiderable and they entered the market in small, scattered lots. The peasants, as a rule, sold their products only when they needed funds for purchases.

The share of state purchases of cotton and grain in the fourth quarter of the given year in total purchases during the whole year is shown below (in percent):

<u>Year</u>	<u>Grain</u>	<u>Cotton</u>
1952	41.0	61.2
1953	42.5	59.4
1954	48.4	62.0
1955	51.0	78.1

Not only did the agricultural producer cooperatives have a greater volume of production and a higher marketable surplus than the single private peasants; also their sale of most of the commodity grain, cotton and other agricultural products took place within a comparatively short space of time.

All these market peculiarities which arose as a result of the formation of agricultural cooperatives had a certain effect on the circulation of money.

Of course, certain new features in the sphere of the circulation of money (for example, the development of clearing settlements) were not yet playing a paramount role in the countryside at that period. Other phenomena, in particular, changes in the channels of the circulation of money, were only beginning to appear. Below we describe these new features.

Development of clearing settlements. Clearing settlements in the countryside were established first of all between the state trade system and part of the agricultural producer cooperatives. As a result of the movement for the formation of cooperatives, small private farms were transformed into large collective farms. The production of each farm expanded a hundred or even a thousand times, and the total number of production units decreased by over 90 percent; one million agricultural producer cooperatives were established in the place of 100 million single private peasant farms.

On the basis of the formation of the cooperatives, the sale of basic agricultural products increased in volume and began, as we saw, to be accomplished in short periods. The agricultural producer cooperatives did not need to spend immediately the whole amount obtained from the sale of grain; they had to reserve funds for capital construction and for production expenditures during the coming year, and also for distributing for labor-days. Since the agricultural products are purchased by the socialist trade apparatus (state companies or supply and sales cooperatives), and the suppliers of the agricultural products are producer cooperatives, with the increase in the number of People's Bank establishments and the development of credit cooperatives everywhere, the possibilities of expanding clearing settlements in the countryside are growing all the more.

The system of clearing settlements is advantageous for the agricultural producer cooperatives. It speeds up and simplifies the receipt of funds from the sale of agricultural products, and eliminates the need for work in checking and counting cash. Losses, errors, squandering and other losses are thereby reduced.

Cooperatives are able to invest the sums received from the sale of products in the bank or credit cooperative immediately. The interest paid on deposits increases their income. In addition, all concerns related to keeping cash directly in the cooperative are eliminated. Clearing settlements are also advantageous for the bank and for the credit cooperatives, since they promote the growth of deposits, which enables the state to fill part of the requirements for funds needed to purchase agricultural products.

Clearing settlements between socialist trade and agricultural producer cooperatives are still far from being universal. The further development of the system of clearing settlements in the countryside must be achieved with strict observance of the principle of voluntariness.

A change in the channels of the circulation of money in the countryside. As the movement for the formation of agricultural cooperatives acquired ever greater proportions, purchases of producer goods and the sale of agricultural products began to be conducted mainly by the cooperatives rather than by individual peasants. As a result, the system of clearing settlements began to be used more and more. All this promoted a change in the channels of the circulation of money.

During the period before the formation of cooperatives the state, in purchasing agricultural products from the private peasants, gave them cash for the whole value of the purchase immediately. The peasants used the money for acquiring needed production materials and consumer goods. Therefore, the main channels for the flow of cash into circulation in the countryside were purchases of agricultural products, and the channel for its flow out of circulation was the sale of production materials and consumer goods through socialist trade.

At present the following new features have begun to appear. Part, or even the greater part, of the payments for products purchased from the agricultural cooperatives and for basic producer goods sold to them are handled by clearing settlements. As a result, the basic channel for the flow of cash into the countryside has become the payment of money for labor-days, and the main channel for withdrawing money from circulation is the supplying of consumer goods to the countryside. Payment by cooperatives for production materials acquired in socialist trade is handled partially by clearing settlements. Thus, cash turnover is gradually being limited to relations between the socialist enterprises and cooperatives on the one hand, and the members of the cooperatives and the private peasants on the other hand.

The periods of receipt of cash income by the members of the producer cooperatives and the private peasants differ. For the private peasants, income mainly depends on their sale of agricultural products. But since they sell and purchase goods in small lots, their money receipts and purchases, as we saw, are inconsiderable and dispersed in time.

The money income of the members of the agricultural producer cooperatives is mainly income for labor-days. Not only is it in a greater amount than the income of the private peasants, but it is more concentrated in time, since it is paid twice a year (a preliminary distribution in the middle of the year and a final one after the fall harvest).

The concentration in time of the money income of the cooperative members causes a relative concentration of their expenditures for the purchase of consumer goods.

But in order to distribute income for labor-days, the agricultural cooperatives must sell the greater part or all of the products intended for sale. It is otherwise with the private peasants, who, during the fall harvest period, can harvest part of the products, sell them immediately in small lots, and make small purchases. In the cooperatives a certain period of time elapses between the harvest and the distribution of income among the members. During this interval (sometimes inconsiderable) the private peasants can make small sales and purchases, but the cooperatives can only sell. Thus the huge purchasing power of the cooperative members is only a potential purchasing power during a certain period, before the receipt of income for labor-days.

In this connection, in the interests of the cooperatives it is necessary, after the fall harvest, to extend the time for the sale of consumer goods to the peasants in large amounts. Also, this period can be reduced by more effective organization of state purchases of agricultural products, of the sale of products by producer cooperatives, and of accounting work.

An increase in the supply of commodities by the local supply and sales cooperatives on the local markets. This reflects the striving of the rural population to select a more advantageous form of trade. In the sphere of the circulation of money this form of trade causes a tendency for money to flow into circulation and to be withdrawn from circulation directly on the local level. Thus, in the Sixth Region of I-hsien County, Liaoning Province, there were a total of four local supply and sales cooperatives of which one was in the village of Ta-yü-shu-pao, the central market point and the economic and administrative center of the region. In the past over 50 percent of all sales by supply and sales cooperatives in this region were handled by the cooperative in Ta-yü-shu-pao.

Beginning with 1954 when cooperatives were formed on a wide scale the situation in this region changed. During the first half of 1955 the total amount of sales by supply and sales cooperatives increased by approximately 11 percent in the region as a whole over the first half of 1953. However, the growth in sales was unequal among the different cooperatives. The share of sales by the Ta-yü-shu-pao supply and sales cooperative in total sales in the region fell from 55.1 percent to 27.4 percent, and the volume of sales fell from 280,000 yuan to 180,000 yuan. The volume of sales increased considerably in the other three cooperatives, and their share increased from 45 percent to 73 percent. The share of sales made by the cooperative in Ch'ie-ch'ang rose especially sharply: in the first quarter of 1953 they comprised only 4.2 percent and in the second quarter of 1955 they rose to 24.5 percent.

After the formation of agricultural cooperatives the rural inhabitants tried more to make purchases locally, closer to home. This caused an increase in sales by the local supply and sales cooperatives located in direct proximity to the masses, and to a reduction in sales at trade centers.

The basic cause was that when producer cooperatives developed both men and women began to participate in production. The peasants, valuing their labor-days, stopped going several tens of li (one li is 576 meters) to market. Formerly there was a market in Ta-yü-shu-pao about every three days, and each time over 6,000 peasants visited it. Now only 3,000 persons come to the market. Formerly the private peasants, selling and buying in small lots, were compelled to go to the market since only there could they conduct the small-scale trade. After they joined the agricultural producer cooperatives the situation changed. Sales of basic products in large amounts and purchases of

the most important production materials began to be conducted by the cooperatives in a completely centralized manner. As a result, peasants' trips to market fell sharply.

Thus, the tendency for money to leave circulation in the same places where it entered appears even more clearly. The establishment of retail sale divisions at supply and sales cooperatives everywhere in the countryside and the extensive organization of the activity of small traders and hawkers in the villages fill the requirements of the new situation in the sphere of the circulation of commodities and money in the countryside.

Thus, the effect of the formation of agricultural cooperatives on the circulation of money in the countryside consists mainly of the following.

Payments between agricultural producer cooperatives and socialist trade have gradually begun to be handled in the form of clearing settlements. The channels for the inflow and return of money in rural turnover have changed. Money now flows into circulation mainly during the period when income is distributed for labor-days, and money leaves circulation through the supplying of consumer goods to the peasants. Money revenues and expenditures of cooperative members are of a more concentrated nature. The requirement on the part of the peasants to make purchases near home has increased, so that the tendency for money to be removed in the same place where it entered circulation has grown stronger. At the same time the share of money withdrawn from circulation through credit channels has increased.

All these changes were caused by the great transformation of production relations in the countryside, by the conversion of single, private peasant farms into collective farms.

IV

The Increase in Possibilities for Regulating Seasonality in the Circulation of Money Through Credit Channels

The peculiarity of the rural market is its seasonal nature, due to the seasonal nature of agricultural production. The rural market situation in the first half of 1953 (the spring field work period) was characterized by an excess of sales over purchases on the part of socialist trade and by an excess of purchases over sales on the part of the peasants. As a result, the amount of money in the peasants' hands decreased, and money was withdrawn from circulation.

Taking the amount of purchases of agricultural products during the first half of each year as 100, the volume of sales [of goods] is expressed as follows:

1953	164	1955	200
1954	132	1956	224

During the second half of the year the situation changes radically: for socialist trade, purchases exceed sales, and for the peasants, sales exceed purchases. Moreover, the amount of money in the peasants' hands increases, which means an increase in the amount of money in circulation. Taking the amount of purchases [of agricultural products] as 100, the value of sales [of goods] during the second half of the year was:

1953 67.3

1954 83.7

1955 82.0

Approximately two thirds of the money expenditures for the purchase of agricultural products occur during the second half of each of these years, and one third during the first half year. During the first half of 1956, according to preliminary data, these expenditures comprised a little over 27 percent of total expenditures for the year, while expenditures during the second half year comprised about 73 percent. This is because purchases of agricultural products have become concentrated as the result of the formation of agricultural cooperatives.

The shares of money receipts by state and cooperative trade during the first and second halves of 1956 were approximately the same as in the preceding years; according to preliminary data, 47 percent occurred in the first half year and 53 percent in the second. The huge volume of agricultural cooperation has promoted not only an increase in the sale of production materials, but its concentration, in good time, in the first half year.

The growth in agricultural credits by the People's Bank and the ever greater payment of advances to the peasants increased their purchasing power, which has been reflected in purchases by the peasants in good time. This made it possible to reduce the issuance of money in the second half of 1956, when purchases of agricultural products increased and a growth in production was expected. The development, in every way, of credit work in the countryside also stimulated a tendency toward leveling of peasants' purchasing power.

However, seasonality in commodity circulation, caused by seasonality of agricultural production and manifested as an excess of sales of goods in the countryside over purchases [of agricultural products] during the first half year, and in an excess of purchases over sales in the second half year, continues to exist. It is necessary to study the peculiarities of the influence of this seasonality with the aim of regulating it accordingly in the interests of promoting satisfaction of cooperatives' and private peasants' needs for money, of fulfilling the state commodity turnover plans and of strengthening market stability.

During the past several years the state has supported the peasants with credits during the spring field work. This aid was especially considerable during the spring plowing period in the first half of 1956 as the following data show:

Credit Aid to Agriculture
(in million yuan)

First Half Year	Credits	Payments of Savings Deposits	Advances for Purchases of Agricultural Products	Total	Growth (1953 = 100)
1953	390	40	--	430	100
1954	250	60	180	490	114
1955	410	320	160	890	206
1956	1,840	350	980	3,170	736

The total value of state purchases of agricultural products in the countryside during the first half of 1956 hardly changed in comparison with the same period of the preceding year. At the same time the total value of goods which were supplied to the agricultural co-operatives increased by several billion yuan during the same half year. An especially large growth (43 percent) occurred in deliveries of production materials; moreover, deliveries of new types of agricultural implements increased more than six times.

All the above demonstrates that the increase in aid to the countryside through credits and advances for purchases of agricultural products is a basic method of regulating the seasonality of the rural market and of the circulation of money in the countryside. In addition, the continual improvement in supplying the peasants with production materials and consumer goods during the first half year not only promotes the flow out of circulation of the money which flowed in during the turnover in the preceding market peak, but also plays an extremely important role in the matter of satisfying the requirements of rural production and of giving aid to the peasants, and in reducing the tension inherent in the market peak season.

During the second half year, when purchases by the socialist trade network exceed its sales, credit regulation has extremely great significance.

Below are data on the flow of money out of circulation through credit channels (in million yuan):

<u>Second Half Year</u>	<u>Receipt of Deposits in the Countryside</u>	<u>Repayment of Credits</u>	<u>Reimbursement of Advances for Purchases of Agricultural Products</u>	<u>Total</u>	<u>Growth (1953 = 100)</u>
1953	160	160	--	320	100
1954	380	150	180	710	221
1955	490	170	140	800	250

Thus, during the market peak season in 1955 the flow of money out of circulation through credit measures was 14 percent greater than in 1954, and 150 percent greater than in 1953. However, since the formation of agricultural cooperatives was then still in the developmental process, the regulating role of the credit measures was especially apparent in the regions with the greatest degree of cooperation.

We have only touched on some of the most important problems in the sphere of the circulation of money which took place during the formation of cooperatives in the countryside for a period of a little over one year.

V

The Influence of the Socialist Transformation of Capitalist Industry, Trade, and Cottage Industry on the Circulation of Money in the City

In 1956 the socialist transformation of capitalist industry, trade, and cottage industry had been successfully completed on the whole. The successes in socialist construction and socialist transformation during the First Five-Year Plan period had a corresponding effect on the circulation of money in the city. However, we do not yet have sufficient materials at our disposal to present an exhaustive analysis of this problem.

On the basis of some materials (for 1954) for the Port Arthur and Dal'nyy region and the cities of Anshan and Shen-yang, it is possible to trace the general tendency in the development of the circulation of money since these regions, during that period, had a large share of industry with an absolute predominance of the socialist sector of the economy.

The data for these regions give a general picture of the following main features in the circulation of money in trade and industrial centers with a predominating share of the socialist sector of the economy.

a. Changes in the distribution of money among the different classes and layers of society. As the result of the development of production, the expansion of trade, the increase in the population's purchasing power, and the growth in the share of the socialist sector of the economy, the amount of money in circulation in the cities increased as a whole, but its distribution among the different social layers of the population was unequal.

The amount of money in the hands of the working population (mainly workers, employees and peasants from the suburban regions) increased considerably. The amount of money held by state enterprises did not change appreciably although their activity developed tremendously. The amount of money held by private enterprises also changed little, but its share in the total amount of money in circulation tended to fall, as apparent in the example of the Port Arthur-Dal'nyy region. In this region the total amount of money in circulation increased by 54 percent between April 1950 and April 1954. However, the change was not identical for the different layers of population and economic sectors.

First, despite the fact that the activity of the socialist enterprises and state establishments developed, the amount of money at their disposal decreased by 10 percent in absolute terms during this period, and proportionally, from 60 percent to 34 percent of the total money. This was caused by the development of clearing settlements between socialist enterprises.

Second, the amount of money in the hands of the population (including peasants from the suburban regions) more than tripled in absolute terms, corresponding on the whole with the growth in wages and the increase in purchases of agricultural products, and its share increased from 25 percent to 50 percent. This part of the money increased steadily and began to play the predominating role in total cash turnover.

Third, the money held by private enterprises, although it increased in absolute terms, did not change in respect to its share (about 15 percent of total money in circulation).

Below we give data on the changes in the distribution of money in the cities of Shen-yang and Anshan (in percent of total money in circulation):

Period	State Enterprises and Organizations		Private Enterprises		Workers, Employees, Other Population, and Suburban Peasants		Total	
	Shen-yang		Shen-yang		Shen-yang		Shen-yang	
	Anshan	Anshan	Anshan	Anshan	Anshan	Anshan	Anshan	Anshan
Nov 1951*	15.1	14.4	60.2	49.5	24.7	36.1	100.0	100.0
Apr 1954	18.1	25.4	34.0	11.6	47.9	63.0	100.0	100.0

* For Anshan, October 1951.

The share of money in the hands of the population increased sharply; the share held by private enterprises fell greatly, and the share held by state enterprises increased although this increase was small in comparison with the development of their economic activity.

The indicated changes were the result of the development of the socialist economy, the growth in the share of the socialist sector of industry and trade, and the socialist transformation of private capitalist industry and trade with the appropriate development of socialist credit.

In connection with the development of methods of socialist crediting and settlements, with the introduction of control over cash turnover, and with the expansion in clearing settlements, requirements of socialist and semisocialist enterprises for cash fell sharply. On the other hand, the income of the workers, employees and suburban peasants increased on the base of the development of production, increase in wages, rich harvest, and regulation of purchase prices.

b. Changes in the structure of cash turnover in the cities. Wages became the basic channel for the flow of money into circulation in the cities, and the sale of goods and services to the population became the basic channel for its withdrawal.

Data on the cash turnover of the People's Bank in the Port Arthur-Dal'nyy region follows (in percent):

	Fourth Quarter 1953	First Quarter 1954
Receipts of cash		
Retail and wholesale trade	67.0	70.3
Transportation and municipal services	6.5	--

	Fourth Quarter <u>1953</u>	First Quarter <u>1954</u>
Financial receipts	5.5	4.3
Bank deposits	10.4	10.6
Other	10.6	14.8
Total	100.0	100.0
Cash payments		
Wages	58.2	70.0
Purchases of agricultural products	15.2	4.7
Administrative expenditures	3.0	--
Payment of deposits by the bank, issue of credits	12.4	11.3
Other	11.2	14.0
Total	100.0	100.0

Consequently, wages account for 70 percent of all cash payments. At the same time, over two thirds of all receipts of cash flow through trade into the bank.

This is also characteristic of the money turnover of Shen-yang, Harbin, Anshan and other cities in which the socialist sector comprises a large share of industry.

The data presented reflects the improvement in supplying goods through socialist and cooperative trade, the increase in the sale of goods by the retail trade network, and the strengthening of bank control over the observance of the plans for issuance of cash into circulation.

It is apparent from the above that in industrial cities where the socialist economy comprises a large share the decisive link in control over the circulation of money is the correct regulation of the relationships between the amount of wages paid and the volume of retail commodity turnover and their careful coordination.

During the years under examination, based on the development of production, the supplying of food, cloth and other consumer goods to the population improved every day, and prices remained stable.

At present an important problem is to increase the supply of secondary food goods to the population; these goods comprise approximately 20 percent of workers' and employees' budgets.

The steady growth in the wage fund has posed a number of new problems in the field of trade and the circulation of money. The central problem is an increase in the production and supplying of goods, an increase in paid services, the development of savings, etc.

From the beginning of the planned economic construction, along with a rapid development of capital construction and industrial production, the issuance of money into circulation through wage funds has increased rapidly. Thus, taking payments of cash in the form of wages in 1954 as 100, in 1955 they were 118, and in 1956 (according to a preliminary estimate), 149; i.e., they increased by almost 50 percent. This is the result of the growth in the number of workers and employees and of the increase in the wage rates. In 1956 alone wage rates were increased by more than 10 percent throughout the country.

The great amount of cash which flows into circulation through the payment of wages must flow back into the bank in an organized way through the sale of goods, the supplying of services, and other measures.

After the socialist transformation of capitalist industry and trade and the establishment of the joint state-private enterprises, all of the country's industry and trade began to be controlled mainly by the state. In respect to the circulation of money the following changes occurred in this connection.

a. Formerly the issuance of money into circulation for the capitalist sector of the economy was extremely difficult to control. Now this problem hardly exists in the cities. Cash issued into circulation for joint and state enterprises is completely the same in nature. This money can be regulated in conformity with socialist principles (of course, the principles and methods in respect to small state-private enterprises and small cooperatives differ). With the assistance of credit and settlement work and of control over the movement of cash, it is possible to reduce requirements for cash and increase the planned character of the circulation of money.

b. Money is issued in cities mainly through the channels of capital construction, wages, and interest payments. The expenditures for capital construction and for wages are especially large.

Satisfying the requirements of capital construction for building materials and thereby achieving the planned balance of capital construction is a task of great importance. Observance of the balance between wages and consumer goods put on the market for supplying the population is also a problem which is difficult to solve, since the consumer goods depend on production by the peasants and other small producers. In addition, it is necessary to consider a number of peculiarities peculiar to the expenditure of wages: concentration in time, immediate demand for consumer goods, execution of purchases on the local level, and the need for a wide assortment of goods.

In order to resolve the difficulties it is necessary, in addition to implementing measures in the sphere of production and sales, to turn attention on methods for regulating the payment of money for wages. These methods include control over the expenditure of the growing wage funds, regulation of the payment of wages in the sense of greater dispersal in time, and strengthening the work of attracting deposits. All this must lessen tension in the supplying of goods to the market.

VI

The Monetary Reform in New China

The Nature of Monetary Reforms

When studying the nature of the monetary reform implemented by a state it is first necessary to consider in whose interests the reform is implemented: in the interests of the exploiter class or of the wide masses of workers.

The nature of a state's monetary reform is determined by the nature of the state's social and economic structure. Monetary reforms in capitalist states can only be an instrument for exploitation of the workers by the bourgeoisie. In capitalist countries the workers lose huge sums as the result of monetary reforms. These reforms are a form for robbery of the wide masses of workers by the monopolists.

The monetary reforms in old China were also important methods for exploitation of the people by bureaucratic capital.

On 3 November 1935 the reactionary Kuomintang government implemented a monetary reform. The paper money, "fa pi," issued in place of the silver yuan were actually tied to the English pound and the American dollar. This was a monetary system of semicolonial nature. The "fa pi" depreciated very quickly. A long period of inflation started.

After a little over 11 years (from 1937 to 1948) the issuance of "fa pi" had increased 470,000 times, and prices had increased more than 4,920,000 times. In August 1948 the Chiang Kai-shek clique, trying in every way to remove gold, silver, foreign currency and other valuables from the population, implemented a second monetary reform and "fa pi" were replaced by so-called "gold yuan." In less than a year the amount of paper "gold yuan" issued into circulation increased 240,000 times, and the value of the money fell to one ten millionth of the value which it had a year before.

Between June 1937 and May 1949 the issuance of money increased 176.8 billion times; during the same period wholesale prices in Shanghai rose 13,884 billion times. The losses borne by the people as a direct result of the depreciation of the money exceeded 15 billion prewar silver yuan.

The predatory monetary reforms conducted by the Chiang Kai-shek clique were deeply odious to the people.

The monetary reforms of a socialist state, regardless of whether their purpose is to halt inflation and stabilize the currency or to redistribute the people's wealth during the transition period for striking a blow against the capitalist elements and regardless of the specific methods used in conducting the reform, have the over-all goal of developing the planned socialist economy and improving the workers' life. Thus their nature is fundamentally different from the nature of the monetary reforms of capitalist states.

The monetary reform conducted in the People's Republic of China in March 1955 was, in nature, similar to the monetary reforms of other socialist countries. Its form was determined by the political and economic situation of our country at that period. This reform had its clear peculiarities, conforming to the specific situation in China.

The Economic Situation of People's China During the Period of Issuance of the New Money

The 1955 monetary reform was conducted on the base of a steadily developing production and expanding commodity turnover and of a balanced state budget and balance of payments with a long period of price stability (beginning with March 1950). The reform was realized during the period of considerable victories in the field of socialist transformation.

In 1954 the total value of industrial and agricultural output increased to 2.2 times that of 1949, and output of modern industry increased to 4.3 times that of 1949; production of grain increased by 50 percent and production of cotton by 160 percent.

The rapid upsurge in production was the base for the expansion of commodity turnover. The volume of retail trade sales in 1954 was 130 percent greater than in 1950.

On the basis of the development of industry, the expansion in trade, and the increase in the population's standard of living, the country's financial situation improved and strengthened. Budget revenues in 1954 amounted to 27 billion yuan, 4.2 times the 1950 revenues, and expenditures amounted to 24.9 billion yuan, 3.6 times the 1950 expenditures. The excess in revenues over expenditures enabled an increase in the People's Bank's credit resources, which promoted favorable conditions for the further strengthening of the circulation of money.

China's balance of payments, based on successes in the reconstruction of the national economy, on the expansion of foreign trade and on the development of international economic relationships, developed normally and stably. Total receipts and payments of the 1954 balance of payments amounted to more than 2.2 times the 1950 level. During 1950-1952 payments amounted to 90 percent of receipts, and during

1953-1954, 98 percent. Thus, the balance of payments was balanced, and afterwards an excess of receipts over payments appeared. At the same time the country's gold reserves increased sharply.

In 1954 output of state industry comprised 59 percent of China's total industrial production; output of cooperative industry comprised 4 percent, that of joint state-private industry, 12 percent, and that of private industry, 25 percent. Consequently, the socialist sector occupied a predominating position in industrial production.

The share of socialist trade in wholesale sales reached 89 percent in 1954, and in retail sales, 59 percent. The position of socialist trade had strengthened considerably.

By the end of 1954 there were already almost 500,000 agricultural producer cooperatives throughout the country, and 11 percent of all peasant farms had joined the cooperatives.

Although the socialist sector had a firm position in industry and trade, private capitalist industry and trade still held a large share. In the countryside there was a considerable number of private farms, but conditions were already ripe for complete agricultural cooperation.

All this demonstrated the great successes in the matter of socialist construction and socialist transformation. The situation required a further improvement in our monetary system and the implementation of a monetary reform.

The Form and Peculiarities of the Monetary Reform

On 21 February 1955 the State Council of the People's Republic of China published an order on the issuance of new notes and withdrawal of the old notes which were then in circulation. The order noted:

"For the purpose of satisfying the requirements of state planned economic construction and the wishes of the wide masses of people, on the basis of the balancing of state financial revenues and expenditures and of the stabilization of the circulation of money and commodity prices, and also for the further normalization and strengthening of the state's monetary system and the establishment of favorable conditions for commodity turnover and settlements, it is ordered:

1. That the People's Bank of China be instructed to issue new notes into circulation beginning 1 March 1955 (called below "new notes") and to remove the notes already in circulation (called below "old notes"). The new money is issued in the following face values: basic notes -- 1 yuan, 2 yuan, 3 yuan and 5 yuan; change -- 1 fen, 2 fen, 5 fen, 1 chiao, 2 chiao, and 5 chiao. The reverse of each note has inscriptions in Chinese, Tibetan, Mongolian and Uigur.

2. The rate of exchange between the new and old notes is set at: 1 yuan in new notes is equal to 10,000 yuan in old notes. From the day that the new notes are issued, all receipts and payments in

money, price computations, contracts and agreements, receipts, licenses, entries in account books of all establishments, organizations, enterprises and individuals, and also international settlements are to use the new notes as a computational unit.

Settlements and payments of all claims and debts relating to the period before the issuance of the new notes, including state loans, are to be handled according to the established rate of exchange from that date.

3. All old notes are to be withdrawn from circulation by the People's Bank of China at the established rate of exchange. All persons in possession of old notes can exchange them from the day of issuance of the new notes into new notes at the People's Bank of China or establishments representing it in the exchange of money at the established rate. During the period when the exchange is being conducted, old notes will circulate along with new notes at the established rate of exchange." ("Constitution and Basic Legislative Acts of the People's Republic of China," translated from the Chinese, Izdatel'stvo inostrannoy literatury, 1955, pp 346-347)

Certain peculiarities are inherent in the 1955 monetary reform.

First, it was only some improvement on the former monetary system of jen min pi and did not have the purpose of completely replacing the old system. The monetary reform was conducted on the basis of the stable circulation of money and stable commodity prices. Although the old monetary unit represented a very small value, during the course of five years it was stable.

The form of the monetary reform was mainly a change in the scale of prices in the country so that the new price scale would conform more fully with the country's economic condition. The reform only improved, normalized and further strengthened the independent, uniform and solid monetary system of new China.

Second, since prices had been stable and the amount of money in circulation had filled requirements of commodity turnover since March 1950, the 1955 monetary reform only changed the face value of the money and the price scale (10,000 yuan in old notes were converted into 1 yuan in new notes). In a practical sense, the amount of money in circulation was not reduced.

This characteristic peculiarity of the monetary reform in China distinguishes it from the reforms implemented in the brother socialist countries after World War II. The implementation of the monetary reforms in the people's democracies resulted in a considerable reduction in the amount of money in circulation. Thus, in Poland 1/15 of the total amount of money in circulation before the reform was in circulation after the reform, in Rumania, 1/12, and in Czechoslovakia, 1/6.

During the period of implementing the reform in People's China the amount of money in circulation corresponded on the whole to the requirements of commodity turnover, proving the stability of the market. That is why it was necessary, in the monetary reform, that the

amount of new notes would continue to correspond to the value which the old notes represented. Otherwise fluctuations in prices could occur, reflecting unfavorably on the country's national economy.

Third, the exchange of old notes for new was conducted at a single rate (10,000:1), without any differentiation for class or for the amount of money being exchanged. The rejection of a differentiated approach in exchanging the money was not only due to our government's policy in respect to the democratic classes, but also to the relations between the country's classes formed in the past. The need for such an approach was also due to economic considerations.

China is a country where agriculture occupies a predominating share; the rural population is the most numerous. The money was concentrated mainly in the hands of the peasants who numbered about 500 million.

According to investigations of several regions during 1953-1954, the money was distributed among the different layers of population as follows (in percent):

	<u>1953</u>	<u>1954</u>
Peasants	58.0	65.4
Workers and employees	16.1	16.5
Private industry and trade	13.2	4.2
State establishments and enterprises	12.7	13.9
Total	100.0	100.0

This data from selective investigations of several regions is indicative of the over-all tendency in the distribution of money. The amount of money held by private industry and trade was small, and there was a tendency for it to decrease further. The share of private industry and trade in bank deposits was also small.

It is important that our state's economic structure at the time under consideration was characterized by the presence of a large number of private peasant farms and cottage industry workers, and also of capitalist enterprises, the production of which was regulated to a considerable degree by the action of the law of value. The development of private enterprises' activity, with restriction of their negative role, was extremely important for strengthening the market.

With such an economic structure and the peculiarities in the distribution of money related to it, the policy of exchanging old notes for new ones at a single rate without any limitation regardless of the class composition of the population and regardless of whether it was cash or bank deposits, was most correct. Any other approach

to the exchange of money could have caused another redistribution of the social wealth, and dissatisfaction among the national bourgeoisie. In addition, the peasants, who held the greatest amount of money, would have incurred losses; this might have affected the strengthening of the union between workers and peasants unfavorably. The workers and employees would also have incurred losses, affecting their standard of living. There would also have been difficulties for the small producers. All this could have negatively affected the country's national economy as a whole.

Effect of the 1955 Monetary Reform on the Country's Economy

The 1955 monetary reform was warmly supported by all classes and all nationalities in the country. The universally recognized advantages of the new money are as follows.

1. The new money makes computation easier. The old notes were issued into circulation on 1 December 1948 when the liberation war was still going on in a large part of the country, and when the national economy was greatly disrupted and currency and prices were not stabilized due to the many years of inflation. As a result, the face value of the old notes was large but the value represented by each unit of money was very small. In making computations it was always necessary to take 10,000 as a unit. This was inconvenient, not only for economic work, but also for the vast layers of the population, especially for the peasants. In many of our enterprises, where billions of computations and bookkeeping entries were made every day, it was necessary to have a large number of workers to handle the computational and accounting work; this necessitated great expenditures.

The issuance of the new notes and the creation of a new scale of prices changed the situation. Before the reform there were no goods on the market worth 1 yuan in old money; the basic monetary unit was the 10,000 yuan note. After the issuance of the new money computation became more convenient, a great amount of time was saved, bookkeeping operations were simplified, and, consequently, considerable labor and financial resources were saved.

2. The new notes were easy to tell apart and convenient in circulation.

The old money had many forms, the sizes were not the same, and the coloring differed for notes of the very same value. The illiterate population (especially the peasants) found it very difficult to determine the value of the different types of notes.

In respect to the new money, the notes of different values have different designs, colors and sizes. A picture of T'ien-an-men Square on the note means that the note represents 1 yuan; a picture of Baogta-shan' /transliterated from Russian/ Mountain means 2 yuan, and a picture of Ching-kan-shan Mountain means 3 yuan. There is a drawing symbolizing the unity of the various nationalities on the 5 yuan note.

The improvement in the notes is in the direct interests of the vast masses of peasants. The new money is printed on good quality paper and is convenient to keep and use. The quality of the new money makes counterfeiting difficult.

3. The new money is suitable for use in the national minority regions, which has a favorable effect on the development of economic ties between the inner regions of the country and remote autonomous territories. During several years of the construction of our government commodity, turnover with the national minority regions grew sharply. However, the variety of the old money, the complexity of the drawings on it, and the absence of uniform standards and inscriptions in the national minority languages (except for part of the money in circulation in Sinkiang Province and Inner Mongolia) made it difficult for the brother peoples of China to use the old money. In addition, silver yuan were in circulation in many national minority regions during the first period after liberation. As a result of the development of economic ties over a number of years the population in these regions began to use the old notes, issued in 1948, eagerly.

The issuance of new money with inscriptions in Chinese, Uigur, Mongolian and Tibetan makes it very convenient for the country's different nationalities, and promotes the further development of economic ties among these nationalities and an even greater unity among all the peoples of our state.

The wide masses of the people interpreted the issuance of the new money as evidence of the further strengthening and normalization of our monetary system. The population began to deposit their savings in the bank with even greater enthusiasm. During 4 days (21-24 February) after the publication of the order on the issuance of new money, the volume of deposits in seven large cities increased by 10 million yuan; moreover, a large amount of the deposits was for a period of over a year. All this demonstrated that the monetary reform being implemented was fully in the interests of the people.

Peculiarities of the Country's Monetary System

A peculiarity of the 1955 monetary reform is the change in the scale of prices. The reform did not establish the gold content of the yuan exactly, but at the same time all the advantages of the jen min pi system, confirmed by use during the past years, were retained.

The main features of the monetary system of People's China are as follows.

The people's yuan is a symbol of value; in fact it has a gold content.

Since the yuan does not have a gold content determined by law, it is not clear to many what the basis for its value is and in what way the yuan can successfully fulfill all the functions of money.

It is necessary to make some explanations in this connection.

Our money, the people's yuan, as all other money, is a special type of commodity, having a value. The question is: what material substance serves in our state as a measure of value, what is the measure of prices, i.e., what is the size of the value incorporated in each yuan?

Up to March 1950 the value represented by each people's yuan was not stable; the amount of gold contained in the yuan steadily declined; i.e., the measure of prices changed continually.

After March 1950, as the result of achieving centralized management of financial and economic work and halting inflation, the amount of gold represented by each yuan was stabilized.

The name, "yuan," is an inheritance from the past. However, the yuan in jen min pi has quite other properties than the silver yuan circulating in old China and other yuan existing in the past.

The government of the People's Republic of China forbid the circulation of gold and silver and also the free exchange of yuan for gold. Gold and silver can be sold to the People's Bank of China or bought from it with a special order. Free trade in gold and silver is forbidden.

The yuan fulfill the following functions of money:

a. The function of a medium of exchange. At present, with the exception of Tibet where, for historical reasons, silver yuan and Tibetan bank notes are still temporarily in circulation, only the people's yuan are in circulation throughout the country;

b. The function of a medium of payments. The yuan is a medium of payment in the issuance of credits to trade, the payment of taxes, the purchase of state bonds, and in credit operations between the People's Bank, the Joint Bank and the enterprises. The only legal medium of payments in the sphere of domestic payments is the yuan. Any other media of payments are illegal.

c. The function of a medium for accumulation and saving. All accumulation by enterprises, establishments and organizations are computed and utilized in yuan. State enterprises and organizations and cooperatives retain their accumulations in accounts at the People's Bank of China and all operations through these accounts are conducted in yuan. The population's savings in the banks are also computed in yuan; they deposit yuan in the bank and obtain yuan from it. With the development of cooperation in the countryside, money operations developed considerably. The amount of money in the hands of the peasants grew substantially, and it became usual for the peasants to save masses of yuan.

In respect to the function of money as a measure of value, the yuan, representing a definite amount of gold, successfully fulfills this function also.

The yuan circulate on the basis of a socialist planned economy.

The issue of yuan is under the sole control of the state. The People's Bank of China is the only center of issue in the country. The state organizes, in a central manner, production, commodity turnover, and also the circulation of money, which is called upon to serve the country's whole economic life.

At the beginning of every year the government works out plans for production, commodity turnover, and the state budget, a credit plan and a plan for the issue of money. Thus, correspondence between the amount of money in circulation and the requirements of commodity turnover is achieved.

Only on the basis of a socialist planned economy, and under the conditions of the centralized organization of production, commodity turnover and the circulation of money is it possible to insure the stability of the value represented by the monetary unit.

The creation of a planned system of the circulation of money is not an isolated phenomenon; it is closely connected with the whole planning of the national economy.

The historical peculiarities inherent in our planned system of the circulation of money are as follows.

a. After halting inflation (March 1950) the issuance of money to cover the budget deficit was discontinued. From this time money began to be issued in conformity with the requirements of commodity production and turnover. Each year the amount of money in circulation increased during the market peak season, and during the slack season it decreased.

The normalization of the financial system and the establishment of principles for issuing and withdrawing money from circulation in conformity with the requirements of the production and circulation of goods are obligatory prerequisites in the planned regulation of the circulation of money.

b. During 7 years (1949-1956) the socialist sector of the economy was transformed into a definite force in the economic development of China. The basic economic law of socialism and the law of planned proportional development began to play a leading role in the country's national economy.

As the result of the conversion of private industry and trade along the lines of state capitalism and the implementation of planned state purchases and planned sales of products, state, joint and cooperative economic organizations took over the preponderant part of the basic commodity resources. The state establishes prices in a centralized planned manner, and goods enter the market in accordance with the state price policy. All this serves as the material base for a planned system of circulation of money and as a factor of exceptional importance.

c. The People's Bank of China became a powerful, single state bank. All private banks and banking houses (with the exception of three private banks connected with capital of Chinese emigrants) were

consolidated in the single joint state-private bank, which, under the guidance of the People's Bank, serves production and commodity turnover.

The granting of long-term and short-term credits is gradually being concentrated in the People's Bank. The People's Bank is the center for granting short-term credits. In the state and cooperative sectors of the economy and in a number of state-private enterprises control over cash has already been realized and clearing settlements are being used. The commercial granting of credits is gradually being eliminated among socialist enterprises. The concentration of all credit activity in the People's Bank played an important role in all these changes. Such a reform of the banking system and the credit system serves as the organizational basis for the planned regulation of the circulation of money.

d. The planning of the circulation of money by the People's Bank is not isolated, but is an organic part of the whole system of single state planning. At the same time, it serves as a guarantee of the planning of production and commodity turnover.

The planned organization of the circulation of money is one of the permanent and important economic functions of the state. In planning the issue of money into circulation the state proceeds on the basis of budget expenditures, state and cooperative trade purchases, the granting of credits by the People's Bank, etc. In planning the withdrawal of money from circulation, it proceeds on the basis of budget revenues, the volume of commodity sales by the state and cooperative trade network, the reimbursement of bank credits, etc. The state takes prompt measures to balance the population's revenues and expenditures. All this work is implemented centrally, under conditions of single planning with participation by various departments under the guidance of the party and administrative organs.

People's China's new monetary system developed during the successful struggle by the socialist economy to overcome the semifeudal and semicolonial economy inherited from old China. It strengthened during the successful struggle against the capitalist sector and the small producers, with their speculative character, chaos and lack of planning.

The yuan is an instrument in the hands of the People's Government to implement socialist construction and socialist transformations, an instrument for planned settlements. The creation of our government's new monetary system expresses the important victory of the socialist economy.

The people's yuan is an independent currency which does not depend on the currency of any other country. The new monetary system has destroyed those phenomena which were inherent in the semicolonial China, such as the dependence on the English pound and the American dollar.

The people's yuan, new money issued by the People's Bank of China, is our country's sole legal money. This demonstrates the unity of the monetary system, never before achieved in China.

Chapter 4

The Struggle for the Planned Circulation of Money

I

Conditions for Planning the Circulation of Money

It is apparent from the preceding chapters that as successes in socialist construction and socialist transformations in the People's Republic of China expanded, a new monetary system was created and strengthened. The country has entered the path of the planned circulation of money. This is the result of the able use by the Chinese people of experience in the organization of the circulation of money on revolutionary bases and in the organization of the monetary systems of the Soviet Union and the people's democracies, and the correct use of the objective laws of the circulation of money in agreement with the Marxist teaching on money.

It is known that the circulation of money is connected with commodity turnover and serves it. In this connection, only through the planned organization of commodity production and commodity turnover on a country-wide scale is it possible to avoid chaos and fully ensure stability in the circulation of money, which, in its turn, creates favorable conditions for the further development of commodity production and circulation.

To plan the circulation of money there must be the appropriate objective conditions, the chief of which are the following.

The planned regulation of prices on goods. Since the amount of money in circulation is determined by the total of prices on goods, and the latter, if the amount of commodities is fixed, is determined by the level of prices on goods, the planned regulation of prices is one of the most important factors in the regulation of the circulation of money. Capitalist countries also have separate, more or less lengthy, periods of relatively stable prices. However, under capitalism, under the conditions of the action of the law of competition and production anarchy and of the chaotic action of the law of value, price stability can be only a temporary phenomenon. The temporary stability of prices is achieved through many collisions and violations which the conscious, planned fixing of price levels eliminates.

The effective regulation of the amount of commodities entering the circulation process. Providing a normal supply of goods for the market is a quite complicated problem.

Agricultural goods are seasonal in nature; therefore, during the harvest period they enter the market in large quantities, and during the rest of the time their sale is considerably smaller. In capitalist countries, the accumulation of goods by kulaks, capitalists and trader-middlemen for sale at speculative prices intensifies

even further the variations in supplying the market with goods. Capital, as is known, always moves toward the most profitable branches of production. Consequently, under capitalism the supplying of the market with different goods is regulated by the law of value and cannot be managed by the state centrally, in a planned manner. If the production and supply of goods is not based on the needs of society, as is the case under capitalism, a single organ cannot control production. Under these conditions the effective, planned (considering seasonal and regional peculiarities) satisfaction of market needs for goods is impossible, and then the planned regulation of the amount of commodities in circulation is impossible.

Effective control over the circulation of money. If it is impossible to regulate the issue of money in a planned way it is impossible to speak of any kind of planning of the circulation of money.

Capitalist governments constantly issue excessive amounts of paper money as a source of funds for covering the budget deficit. This was especially characteristic during the postwar period when the capitalist countries, under US pressure, followed the policy of the armaments race and preparation for war. Under these conditions the prerequisites for the planned regulation of the amount of money in circulation are completely lacking.

Unified organizational work in the field of commodity circulation, the circulation of money, and credit. A capitalist society, where enterprises and banks are private, in its very nature contradicts the requirements for unified planning and regulation of the national economy. The activity of each individual private enterprise and bank can be planned and organized, but the activity of society as a whole is chaotic and unplanned. Only when there is organized commodity circulation, socialist in nature, and dominated by state and cooperative trade, and when there is a single, powerful socialist state bank, is unified organizational work in the field of credit and the circulation of commodities and money possible. Such unity is the organizational basis for planning the circulation of money.

The conditions for the organized, planned circulation of money can be achieved only under a socialist social and state structure. Only after the elimination of class exploitation, when the labor of all society is used to satisfy the constantly growing material and cultural needs of the workers, is it possible to achieve the country-wide, single planned organization of production and commodity turnover, i.e., the planning of the national economy.

II

The Creation of a Base for the Planned Circulation of Money

The rapid development of the socialist economy, the huge growth in the turnover of state and cooperative trade, and the expansion of

the planned production and circulation of goods created the basic prerequisites for planning the circulation of money in the People's Republic of China.

It should be especially emphasized that the stability of our money is mainly ensured by the huge commodity resources concentrated in the hands of the state and put into circulation in a planned way at stable prices. Therefore, if the government does not have sufficient commodity resources with which to supply the market at stable prices in a centralized and planned manner, the amount of money counterbalancing the goods naturally cannot be stable either.

Planned socialist production and commodity turnover requires the planned circulation of money, for which they are the material base. However, this alone is still insufficient. To plan the circulation of money a whole series of measures in the field of the monetary and credit system and a huge amount of organizational work are necessary. The transformations in the field of money and credit in our country were implemented simultaneously with and in accordance with the progressive development of socialist construction and socialist transformations in the country's economy. These measures implemented by the People's Government are, in general, the following.

Centralization of issue. The issue of money in our country is centralized. The state has granted the right to issue yuan to the People's Bank of China which is the sole center of issue in the country; this serves as an important condition in the control over the issuance of money. If there are several issuing organs in one country, each issuing different money, or if money is issued on the local level as well as at the center, control over the issuance of money is extremely difficult and there is a constant danger that excessive amounts of money will be issued. In addition, when there is a single market the relationship between the total of prices on commodities in circulation and the necessary amount of money is a strictly fixed amount. Dispersal of issue and the absence of centralization in this matter could limit the possibilities of planning the circulation of money, and could disrupt the planning.

The state has tried to strengthen control over the issuance of money, not only by centralizing it, but also by suppressing every possibility of using illegal media of circulation. With this purpose, the following measures were implemented:

- a. strict prohibition of the circulation of all substitutes for money;
- b. a law prohibiting the import and export of the national currency across the border. This measure, on the one hand, stopped all attempts by enemy elements to import counterfeit national notes and, on the other hand, protected our national currency and circulation of money from the influence of the chaotic changes in the situation in capitalist countries. The free import and export of money

across the border would doubtless have strengthened the elements of chaos in the circulation of money;

c. the publication in large cities, immediately after their liberation, of orders from the financial divisions of the military control committees prohibiting the circulation of all types of promissory notes, and the establishment of restrictions on the use of checks. The circulation of checks and drafts, and of bank and commercial promissory notes was prohibited. An expansion in the circulation of promissory notes would have unavoidably led to an increase in settlements by other methods than planned settlements which would have intensified chaos in the circulation of money;

d. the immediate prohibition of the circulation of foreign currency in all regions as they were liberated. Permitting the circulation of foreign currency would have violated the principle of a single center of issue. In addition, the circulation of foreign currency is a sign of economic aggression on the part of the imperialist state, a sign of the country's colonial or semicolonial status.

The gradual creation of a socialist credit system. During the course of 7 years, our country, after studying the Soviet Union's progressive experience, implemented measures intended to gradually transform the capitalist credit system and create a socialist credit system. These measures consisted of the following:

a. beginning with 1950, as we saw, a system of control over cash was implemented; all money of enterprises and organizations, with the exception of fixed small cash balances, must be kept completely in the People's Bank. This made it possible to concentrate in the hands of the state all cash likely to be accumulated;

b. beginning with 1951 the granting of credits to state enterprises and supply and sales cooperatives began to be gradually concentrated in the People's Bank, making it possible to convert the bank into a short-term credit center and into one of the organs for controlling the movement of money. Thanks to this, close interrelations were achieved between the credit plan and the state budget and it was thereby made possible to achieve the mobilization and distribution of money on a country-wide scale. The granting of commercial credits among socialist enterprises leads to non-planned distribution of money and causes chaos in the circulation of money. The granting of commercial credits to state enterprises and cooperatives is gradually being eliminated;

c. in 1950 clearing settlements began to be introduced extensively and the People's Bank gradually was converted into the country's settlement center;

d. the creation of a powerful and single socialist state bank. In our country the People's Bank is such a bank; it has a branching apparatus in rural areas, its own divisions in each regional center (in regions it is also connected with the system of credit cooperatives), and numerous divisions in cities. Through its connections

with all enterprises and organizations, it consistently controls, jointly with other state organs, fulfillment of the production and circulation plans. As the issuing, cash, credit, and settlements center of the country, the People's Bank realizes the planned regulation of the circulation of money.

Creation of a healthy monetary system -- the jen min pi system. The 7 years of existence of our country's monetary system witnesses to the complete conformity of its nature to our government's socialist economy. The people's yuan is a powerful instrument of the state in realizing socialist construction and socialist transformations.

Organizational work in creating a unified monetary system. The circulation of money is closely connected with all links of the national economy; the circulation of money affects the development of the national economy and the development of the national economy affects the condition of the circulation of money. This requires the implementation of a huge amount of organizational work so as to be able, more or less accurately, to determine the necessary volume of circulation of money, to effectively control the amount of money in circulation, to consider changes in conditions promptly, and to issue money or withdraw it from circulation accordingly.

The government, to continuously satisfy the constantly growing material and cultural needs of the workers, is improving production and developing productive forces. All the most important goods are in the hands of the state. Giving consideration to seasonal factors and peculiarities of demand in different regions, the state supplies city and country with goods in a planned way, calculates the cost of articles, and establishes prices. This makes it possible to determine ahead of time and to control the volume of goods in circulation and the prices on the goods, and, in agreement with the requirements of organized commodity turnover, to compute the necessary amount of money for this turnover and to plan its issue.

Organizational work in controlling the circulation of money. In discussing the question of organizational work in controlling the circulation of money we will be concerned only with measures already implemented. But this does not mean that these measures are final and not subject to revision. The procedure for controlling the circulation of money will be steadily improved as socialist construction develops and the planning of the national economy improves.

The planning of the circulation of money, as a component part of planning our country's whole national economy, is based on the planning of production and commodity turnover.

Control over the circulation of money consists of the following types of activity.

Compilation of the Plan for Issuing Money

The plan for issuing money is established annually by central organs. Before the beginning of the plan year the annual plans for production, commodity turnover and capital construction are worked out first. At the same time the draft state budget and a credit plan are drawn up. When working out these plans possibilities for increasing state revenues and expenditures on the basis of a development of production and commodity turnover are considered; this is reflected in the appropriate items of the budget and the credit plan. In addition to budget revenues, resources which can be mobilized through credit channels are also considered, and possibilities for maximum economy in the use of state funds are studied.

After establishing the production and commodity turnover plans, the second step is to determine, on the basis of a study of the indicators in the budget and the credit plan, possibilities for increasing the mobilization of funds for fulfilling the production and commodity turnover plans. In doing this the most expedient methods for allocating funds while enabling maximum economy with satisfaction of all plan requirements must be found. At the same time the balance of the population's revenues and expenditures is drawn up. Using this balance, it is easy to see whether the volume of the population's revenues and expenditures balances with the amount of commodities in circulation and the amount of services given to the population. If they do not correspond various measures are taken: greater supply of goods to the market, improvement of work to attract savings, issue of state loans, etc.

From the above it follows that:

a. the plan for the issue of money fixes the amount of money to be issued or withdrawn from circulation during the new plan year. After this the issuing organ, the People's Bank of China, on the basis of directives on issuing money and in agreement with specific seasonal or local conditions, issues or withdraws the money, attentively watching the condition of the circulation of money and promptly regulating it;

b. the plan for the issue of money cannot be compiled in isolation and arbitrarily. It is the result of a large amount of work to interconnect the different parts of the single plan and must be established only by the state. Planning the circulation of money is a component part of national economic planning; the issuing organ, the state bank, organizes the implementation of this plan.

Compiling the Cash Plan

The confirmed plan for the issue of money is a directive on the amount of money to be issued or withdrawn from circulation during the plan year; it also establishes the average annual amount of money in circulation.

In the second stage of the work it is necessary to determine the specific channels, periods and regions of the movement of money during its issuance or withdrawal; moreover, it is especially important to establish the channels for the circulation of money. After this the periods for issuing and withdrawing money are determined. Great attention must be given to the problem of the movement of money between city and country. The circulation of money in the countryside and the methods for issuing and withdrawing money have some peculiarities requiring special study.

The cash plan, on the one hand, shows the sources for receipts of cash by the People's Bank, and on the other hand, the direction of the cash obtained from the bank by the enterprises, establishments and organizations. The cash plan covers only cash turnover and does not include clearing settlements and transfers through accounts. It consists of the cash plans of the enterprises and over-all cash plans.

a. Cash plans of the enterprises and organizations are compiled by state enterprises, cooperatives, establishments, military and other organizations.

The production units, base their cash plan on the indicators of the plans for production, purchase and sales of products and on their own financial plans. Organizations financed by the budget base their planning on their estimates, People's Bank establishments base theirs on their operational plans, and the People's Construction Bank of China bases its on the planning materials relating to cash turnover connected with capital construction submitted by the economic organs, and the plans of its own financial and credit activity.

b. Over-all cash plans are compiled by all People's Bank establishments, beginning with county establishments and on up. The bank establishments, after receiving the plan materials on revenues and expenditures of cash from the appropriate enterprises or organizations and after checking and confirming them, compile the over-all cash plans for counties, cities and provinces. These plans, in clearing the higher levels of authority, are subject to revision and summation.

The main office of the People's Bank of China, on the basis of planning data from the central financial and economic organs and the provincial and city over-all cash plans, and in consideration of the country's financial and economic situation and data on cash turnover during past years, compiles a quarterly, over-all cash plan for the whole country (broken down by provinces and cities). After approval of the over-all cash plan by the State Council, banking establishments at all levels use to approve the cash plans of the divisions subordinate to them. All organizations connected with the fulfillment of the cash plan are directed to ensure its fulfillment.

The importance of the over-all cash plan on the scale of the whole country is that it shows the basic channels for the circulation of money.

The cash plan is compiled according to the following outline:

Revenue Items

Receipts from retail trade
Receipts from wholesale trade
Receipts from passenger transportation
Receipts from freight transportation
Receipts from cultural and educational measures, public health measures, and communal services
Receipts from postal and telegraph operations
Receipts from the agricultural tax
Receipts from all other taxes
Receipts from the issue of state loans
Receipts from savings deposits
Receipts from bank deposits of joint and private enterprises
Receipts from the repayment of bank loans by joint and private enterprises
Receipts from money transfers
Receipts from the repayment of agricultural credits

Other receipts

Balancing Items

Cash transferred from the reserve fund to the operations cash office of the People's Bank

Balances carried over of the operations cash office of the People's Bank

Expenditure Items

Expenditures for wages, bonuses, stipends and pensions

Expenditures for purchases of food products

Expenditures for purchases of industrial crops and products of local industry

Expenditures for the purchase of products of industry and mining

Expenditures for processing costs (Payment in cash by state and cooperative organizations of the value of their orders for the production of goods mainly by private enterprises -- note by the Russian translator)

Expenditures for postal operations

- Expenditures for paying face value and interest on state loans

- Expenditures for the administrative and management apparatus (excluding wages, bonuses, stipends and pensions)

Expenditures for paying out deposits of joint and private enterprises

Expenditures for granting loans to joint and state-private enterprises

Payment of money transfers

Expenditures for granting credits to agriculture

Other expenditures

Balancing Items

Cash transferred from the operations cash office of the People's Bank to the reserve fund

Balances of the People's Bank operations cash office

Formerly the main office of the People's Bank also drew up supplements to the over-all cash plan by basic systems (domestic trade, cooperatives, food products, foreign trade, and finance). These supplements promoted control over cash turnover passing through the basic systems. In addition, it eased the work of the heads of the organs of these departments in ensuring conformity between cash revenues and expenditures and the plan. Subsequently, in connection with the gradual conversion from a procedure under which funds were allocated to groups of enterprises to one under which funds are allocated to individual enterprises as independent economically accountable units, control over cash turnover by systems became unnecessary and impossible.

The supplements to the over-all cash plan were discontinued and in their place the appropriate organs began to present plan data as material for the control over the revenue and expenditure of cash.

After approval of the cash plans, the People's Bank establishments must promptly and carefully control their fulfillment and promote this fulfillment. At the end of each month the enterprises and organizations compile reports on the progress of cash plan fulfillment; upon receiving these the People's Bank establishments summarize them in the over-all data and send it to the higher authorities.

The heads of the financial and economic organs at the local level have the task of mobilizing all efforts for fulfilling the cash plan. Since the cash plan is closely connected with the production, commodity turnover, and financial plans, its fulfillment requires the mobilization of the efforts of all the organizations having anything to do with its fulfillment. Along with this the cash plan has an effect on the progress of fulfillment of the other plans, promptly indicating the appearance of disproportions.

The cash plan and the plan for the issue of money are not identical concepts. The plan for the circulation of money is a directive for issuing money, but the cash plan is an instrument for managing the issue and withdrawal of money from circulation within the limits of directive on issuing money and on the basis of the balanced national economic plan. The plan for the issue of money, compiled for a period of a year, is worked out and controlled by central organs. The cash plan is compiled quarterly with a breakdown for months; it is worked out by the individual enterprises and organizations with subsequent summation as it proceeds through the higher authorities. The over-all cash plan by county, city, province, and the whole country is an important instrument in the hands of the financial and economic organs of the local governments at the corresponding levels in the matter of managing the circulation of money at the local level, and in the matter of the planned state regulation of the amount of money in circulation on a country-side scale.

The cash plan reflects the contents of the balance of the people's revenues and expenditures. But these two documents are essentially different. The balance of the population's expenditures and revenues is material compiled by the state on the basis of appropriate data for orientational and reference purposes. It is a component part of the national economic balance, one of the elements in the work of balancing the national economic plan. Compilation of the cash plan, however, is primarily the responsibility of the enterprises and organizations themselves; after approval the cash plan must be executed and, moreover, the directive on the issue of money is obligatory. The balance of the population's revenues and expenditures include all of the population's money receipts and payments, while the cash plan includes only cash turnover occurring through the People's Bank. Since we also have non-socialist sectors of the economy, the difference between these two documents is even clearer.

Establishment of the Issue Reserve Fund

The compilation of the plan for the issue of money and of the cash plan is only the beginning. After this the issue reserve fund must be established. Its function is to store, transfer in a planned way, pay out and receive notes on the basis of appropriate orders. The basic task of the reserve fund is to ensure the unity of the right of issue, so that without an order from the People's Bank main office no one can dispose of the money in this fund.

Formerly the reserve fund had an independent system. The main issue fund was at the center; there were provincial and city funds in the provinces and cities directly subordinate to the center, county cash offices in the counties, and, at lower levels, reserve points in the economically developed regions (where trade was concentrated).

The reserve funds at all levels were established in addition to the People's Bank divisions at the same levels, and they were managed by the bank establishment manager, who held both jobs simultaneously. The lower funds transferred money in accordance with directives from the higher funds; money was issued from the fund on the basis of an order from the higher fund which in turn was directed by an order from the main fund prescribing the issue of money within the limit established for the fund of the given level. Reserve points, which were not independent units, were under the county funds and acted according to instructions from them. They were not permitted to transfer funds but were responsible only for storing them.

In March 1955 the independent system of reserve funds was eliminated in order to provide more rational organization of issue work. It was replaced by a system of reserve funds attached to the People's Bank establishments; these funds issue money at the direction of the managers of the bank establishments. In essence this reorganization amounted to elimination of the independent system of reserve funds and elimination of the subordination of funds. The contents and principles of the work remained unchanged.

Although the specific functions of the reserve funds are to store, transfer, pay and receive money, they should not be examined only in this respect. The creation of the funds is based on the following important prerequisites.

Money is a symbol of value. But unless it enters the sphere of circulation it does not represent any value. However, from the point of view of external appearance, it is in no way distinguished from circulating paper money and at any time can enter the sphere of circulation, can become money. People can manufacture any amount of printed paper notes, but the possibility of converting any number of them into stable money depends on the existence of an objective law of the circulation of money. The violation of this law, the chaotic issue of "printed notes" into circulation has a destructive effect on the monetary system, on production and on commodity turnover.

Circulating paper money is gradually worn out and may be damaged and the People's Bank must constantly have the necessary reserve of paper notes to replace worn (dilapidated) notes and to satisfy the increasing requirements of the commodity turnover. The presence of such a reserve in no way means increased issue; it is necessary for supporting the relationship between the amount of money in circulation and the requirements of expanding commodity turnover.

Other factors which must be considered are: the huge extent of our country, the unity of the monetary system, the considerable seasonal variations in market capacity, and the peculiarities of different regions. The absence of reserve funds of notes at appropriate points would interfere with the planned regulation of the circulation of money.

In conclusion, it is necessary to touch on the connection between the reserve fund and the People's Bank operations cash office. The daily cash turnover taking place through the People's Bank is very large. The People's Bank is the country's only center of issue. Payment of cash by the bank means an increase in the money in circulation and receipts of cash by the bank means a reduction in the money in circulation. But this receipt and expenditure of cash first of all reflects an increase or decrease in the funds in the bank's operations cash office. Cash in the bank's cash office, by its nature, is money in circulation. Thus, there is a contradiction: money which has already left the sphere of circulation is found in the operations cash office where cash is retained for turnover operations. Therefore, only that amount of money which is necessary for current operations remains in the operations cash office, and all remaining cash is transferred into the reserve fund from which, in case of need, it again enters the operations cash office in accordance with a payment order.

This, on the one hand, ensures that only the minimum amount of money necessary for serving commodity turnover remains in the sphere of circulation, and on the other hand, requires better planning of People's Bank work. If, for example, during the season when planned purchases of grain and cotton are made, the volume and time of sales of grain and cotton by the peasants were not exactly determined jointly with the interested organizations, this could cause a shortage in the cash required for turnover or even lead to a situation where, due to non-receipt of a payment order, cash was not issued. That is the reason for the great importance of the discrimination between the reserve issue fund and the People's Bank turnover cash office. The reserve issue fund is the reservoir of the circulation of money, the sluice of which opens and closes according to orders from the only issuing organ in the country, the main office of the People's Bank of China.

Thus it is clearly evident that the creation of reserve funds is an integral part of our country's system for the circulation of money. Only by having a reserve fund and retaining a certain amount

of notes in it is it possible, at any given moment, in consideration of the situation, to issue the required amount of money into circulation in agreement with the requirements of commodity turnover, to withdraw cash surpluses, and to constantly support the correct relationship between the volumes of circulation of money and goods.

To ensure that the reserve fund is provided with a sufficient amount of notes and to prevent the arbitrary increase in the amount of money in circulation, the right to dispose of the issue funds, especially to issue money from them, must be concentrated in the center.

Compiling the revenues and expenditures schedule for cash turnover. The cash plan, as we saw, is compiled quarterly with a monthly breakdown. In doing this, to issue the amount of planned excess of expenditures of cash over revenues of cash once during the month would be irrational, all the more since the amount of this excess can increase or decrease during the month or the quarter under the influence of various factors. In addition, during the month revenues and expenditures of cash fluctuate considerably and real requirements for cash vary greatly. For these reasons, a method under which the amount of the excess is issued once a month to be used gradually during the month is not economic. If the amount is issued on the basis of the average monthly requirement it can turn out to be insufficient for those few days of the month when the maximum requirement for cash occurs. If funds are issued on the basis of the maximum requirement for these few days, it will be too large for the remaining days of the month.

That is why it became necessary to shorten somewhat the plan period and to compute requirements for cash on a smaller base. But this does not mean that the plan period can be reduced to one or a few days, since the cash plan must undergo the complicated procedure of compilation, checking and approval, during which process orders from the local level can change. Under these conditions it is more expedient for the People's Bank establishments themselves, within the limits of the cash plan confirmed by the center, to compile a plan for the revenue and expenditure of cash for a relatively short period. Such plan figures can be confirmed on time, rapidly and flexibly by the main office, which will promote (within limits of the established cash plan) speeding up the turnover of money and a saving in its use along with ensuring normal requirements for it. The revenue-expenditure schedule for cash turnover compiled at the present time by People's Bank establishments is such a plan.

The revenue-expenditure schedule for cash turnover is an internal planning document of the People's Bank establishments compiled without participation by enterprises and organizations. It is used as a schedule for revenue and expenditure of cash during a determined period. Its role is to serve as a base for regulating money (transfers of money from the reserve fund to the bank's operations cash office) so as to make easier the execution of the cash plan by periods.

The revenue-expenditure schedule of cash turnover is compiled by all People's Bank establishments once every 10 days (this period can be lengthened or reduced somewhat in agreement with a change in the situation or for other reasons). The data included in the schedule differs depending on the conditions of operation of the different bank establishments. Some bank establishments need to include only the over-all data on cash receipts, payments and the balance for the 10 days, and also a communication of this information to the higher establishment with an indication of the amount which needs to be issued or withdrawn from circulation. Other bank establishments must include receipts, payments and the balance for the 10-day period or for another such period with or without a breakdown by days, and also by most important items, which are communicated to the higher establishment with an indication of the amount of cash which needs to be issued or withdrawn from circulation. A number of bank establishments must include the amounts of receipts, payments and balance for all important items with a breakdown by days; these data are also communicated to the higher establishment with an indication of the amount needed to be issued or withdrawn from circulation.

The revenue-expenditure schedule of cash turnover is checked and summarized by the higher bank establishments and approved by the main office, after which it descends to the lower levels. All this work is done operationally by telegraph and is completed before the start of the plan period. Since the amounts included in the revenue-expenditure schedules must not exceed the cash plan indicators confirmed by the central organs, the People's Bank must examine them independently without any delay. On the basis of the approved data the bank establishments give the lower levels orders to issue notes from the reserve fund (issue money into circulation).

The revenue-expenditure schedules, as noted, are usually compiled for a 10-day period with a breakdown by days; moreover, after the expiration of the 10 days the unused part of the amount confirmed by the order on issuing money is recorded on the last day of the 10-day period and this is communicated to the higher authorities. In the last 10-day period of the month the plan is compiled in a special way and a special order on the issue of funds is given.

All the work of the banking establishments on the regulation of issue operations is conducted on the basis of the data of the revenue-expenditure schedules and orders on the issue of funds.

The bank establishments must report regularly to the higher authorities on the daily amounts of receipts and issuance of money from the reserve funds and on the situation in respect to the execution of the orders to issue money into circulation. The provincial and city bank divisions must inform the main office daily, by telegraphs, of the following:

- a. the balance of the amount permitted by the order on the issue of money into circulation (withdrawal from the reserve fund) for the current period;

b. the amount of the cancellation of the order on the issue of money into circulation at the direction of the higher bank establishment;

c. the amount of the cancellation of the order on the issue of money into circulation at the bank establishment's own initiative.

In this way the bank's main office is informed promptly about the issuing of money or withdrawal of money from circulation on a country-wide scale. In the bank's main office this work is done by the issue administration, and in the provincial and city divisions, by the cash planning departments.

In 1950 the People's Bank of China implemented, in respect to the distribution of cash, a "system of covering or transferring differences by transfers." Under this system the issuance of funds on any of the bank establishment's accounts is handled through the mechanism of transfer operations. Each bank establishment daily balances the transfer operations, and in case the amount of transfers to other establishments exceeds the amount of transfers received, cash for the amount of the difference is automatically transferred to the issue reserve fund; if the opposite is true, the bank establishment can independently transfer cash from the issue reserve fund into the operations cash office in the amount of the difference between the amount of transfers received and sent off.

At that time this system was necessary; it promoted the concentration of funds in the bank's main office, the support of state trade, and the expansion of transfer operations between bank establishments, and promoted the fulfillment of the historical tasks in setting up commodity turnover between city and country.

Afterwards the situation changed. As the result of strengthened planning and the strengthening of the system of economic accountability in state enterprises, and of the improvement in the methods for granting credits to the state sector of the economy by the State Bank (formerly credits were granted entirely by the bank's main office to the central organs, and now they are granted mainly by bank establishments at all levels directly to the enterprises), and also with the purpose of satisfying the growing requirements of the state for cash and of stabilizing prices, it became necessary to improve planning in respect to issuing money and withdrawing money from circulation. In this connection, on 1 July 1954 the People's Bank of China abolished the old system of regulating issue and introduced a "system of planned distribution of cash" under which funds are transferred in accordance with the cash plan. This system depends on the revenue-expenditure schedules for cash turnover compiled on the base of the cash plan, and has the following advantages over the old system:

a. it makes it possible to avoid accumulating and immobilizing issue funds en route during the process of distributing them. For example, data on the operation of the Liao-hsi Provincial Division of the People's Bank of China show that during a 5-month period alone

(August-December 1953), as the result of the experimental conversion to the new system, the amount of issue funds en route was reduced by 3,800 billion yuan (pre-reform). Requirements for funds for current operations also decreased, by 46.5 billion yuan;

b. it ensures a close connection between the regulation of issue and the execution of the cash plan.

Under the old system the bank establishments could place cash in the issue reserve fund or cover a difference from this fund independently, in accordance with the differences which formed.

Under these conditions the cash plan data on the issuance of money or withdrawal of money from circulation during a certain period did not reflect the actual situation; this interfered with prompt and operational control from the center over the issuance of money into circulation in the various regions of the country. The new system, consolidating the cash plan and the revenue-expenditure schedules, ensures complete coordination of the planned and actual distribution of cash. This is one of the most important conditions in the field of planning the circulation of money.

With the development of planning of the country's national economy, ever more favorable conditions are being created for regulating the circulation of money. During the period when socialist ownership is being converted into the sole economic basis of our country's national economy and commodity turnover is being organized completely by state and cooperative trade, when the commodity prices are being established in a planned way and commodities enter the market in agreement with requirements at fixed, planned prices, and when all enterprises, organizations and cooperatives have credit relations only with the People's Bank, the latter is fully realizing the role of the country's sole issue-cash and settlements center, and the center of granting short-term credits.

All turnover funds, without exception, are moving through the People's Bank. At the same time the planning is being greatly improved in all enterprises, organizations, cooperatives and bank establishments. This leads to an improvement in the planning and regulation of the circulation of money in the People's Republic of China.

As already noted, stability of the people's yuan is mainly ensured by the huge commodity resources concentrated in the hands of our government, which can, in a planned way, determine commodity prices and thereby ensure that the masses of people will obtain the needed goods at stable prices. But the commodities in the hands of the government are not the only basis for the value of the people's yuan, since, in the world of commodities, there is no substance of value better than gold to replace gold as a material expressing the value of goods. That is why gold fulfills the function of a measure of value at present.

Another determining factor in the stability of the people's yuan is having the appropriate number in circulation. Only by maintaining the correct ratio between the amount of yuan in circulation and the amount of goods in turnover can stability of the value of the yuan be ensured. Regulation of the circulation of money so that the volume of money always agrees with the objective requirements, is only possible under the conditions of a socialist economy. Our government is actively converting this possibility into a reality, observing the laws of the circulation of money.

The planned management of the circulation of money by the government is a guarantee that notes which have left the circulation process and are entering again will not disrupt the circulation of money and cause inflation and depreciation of the money. The history of the circulation of the jen min pi shows that the Chinese Communist Party and the People's Government, correctly using the objective laws of the circulation of commodities and money (in consideration of the specific economic and historical conditions), have placed these laws at the service of the construction of socialism, and at the service of increasing the people's standard of living.

5677

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